TEXAS 2002

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended August 31, 2002

Carole Keeton Strayhorn

CAROLE KEETON STRAYHORN, TEXAS COMPTROLLER

State of Texas
Comprehensive Annual Financial Report
For the Year Ended August 31, 2002

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Introduction

San Antonio

The Alamo
1936

February 28, 2003

To the Citizens of Texas, Governor Perry,
and Members of the 78th Texas Legislature:

The Comprehensive Annual Financial Report of the State of Texas for the fiscal year ended August 31, 2002, is submitted herewith. Responsibility for both the accuracy of the data presented as well as the completeness and fairness of the presentation rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects and all disclosures, necessary for a reasonable understanding of the State's financial activities have been included.

The reporting approach established by the National Council on Governmental Accounting in Statement No. 1 and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The Introductory Section provides this transmittal letter, elected officials, government structure of Texas, and the GFOA Certificate of Achievement. (2) The Financial Section includes the auditor's opinion; Management's Discussion and Analysis (MD&A), which provides an introduction, overview and analysis of the Basic Financial Statements; the Basic Financial Statements, which present government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with the Notes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and Other Supplementary Information, which includes the combining financial statements. (3) The Statistical Section provides various financial, economic, and demographic data about the State.

Reporting Entity

This report includes government-wide statements and fund financial statements of various departments, agencies, and other organizational units, which are considered part of the State of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by the GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the Notes to the Financial Statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the State of Texas is discussed in Note 19.

All activities that would generally be considered part of the State of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulatory, and general government.

Pension and Other Employee Benefit Trust Funds

The State contributes to five pension plans: Teacher Retirement System, Employees Retirement System, two Judicial Retirement Systems, and the Law Enforcement and Custodial Officer Supplemental Retirement Fund. The State also administers, but has not been required to contribute to, the Fire Fighters' Relief and Retirement Fund. The Other Employee Benefit Trust Funds include the Deferred Compensation Trust Fund, the State Employee Cafeteria Plan Trust Fund, and the Texa$aver Administrative Trust Fund that are administered by the Employees Retirement System.

Economic Outlook

After adding jobs every year from 1988 through 2001, during which nonfarm employment in the state rose by nearly 50 percent, the state's employment fell by 38,900, or 0.4 percent, from November 2001 to November 2002. Most of this loss happened earlier in the year, as the total loss has been only 2,000 jobs since July 2002. The lion's share of the lost jobs was in the manufacturing sector (33,900), and the majority of these were in only a few industries. Electronic equipment, computers, and apparel (clustered mainly along the Texas-Mexico border) accounted for most of the jobs lost in 2002.

Texas continues to struggle with the economic slowdown that has plagued the entire U.S. economy for almost two years. The nation underwent a mild national recession during the first three quarters of calendar year 2001, and recovery has been on a rocky road since. Until recently, relatively strong consumer spending was the major factor helping the nation avoid a deeper recession, but this was mostly held afloat by vigorous automobile sales in response to low loan rates and other incentives. In recent months, consumer spending has surrendered to the general climate of slow wage and income growth.

Still, Texas fared better than much of the nation in the downturn of 2001 and 2002. Thirty-one states, including eight of the ten largest states, lost jobs over the past year. Based on the rate of job change over the past year, Texas ranks fourth best among the ten largest states. Among these large states, Florida grew the fastest, although with a lackluster gain of only 0.6 percent.

A sustained rise in consumer confidence has failed to materialize so far, where optimistic blips have been followed by declines, in the face of a job market that has yet to blossom. Through much of 2002, the economic slowdown did not stop consumer spending. Residential construction, in particular, was boosted by low mortgage rates to its best year since 1998. The real problems were, and are, a weak stock market, a plethora of corporate bookkeeping scandals, and a lack of business investment, which was clobbered by excessive purchases on information processing and other equipment during the 1990s. In Texas, the business investment downturn particularly hurt the state's once-booming firms producing computers, electronic components, telecommunications, and other high-tech products.

During most of 2002, Texans established at least 6,000 new incorporations per month. The moving average of new incorporations from August through October of 2002 stood at 6,543 per month, up nearly 26 percent from a level of 5,208 a year earlier. New business incorporations do not necessarily indicate a strong economy, as the number says nothing about the impetus for the new incorporations (which may have been layoffs or problems with a previous business), and it also does not address the number of new startups that fail. Still, the ongoing entrepreneurial spirit of Texans is reflected in the large number of Texans taking on the challenges of a new business.

Consumer Confidence Fades

Since it is a major factor driving housing, automobile, and other major purchases, consumer confidence is a key to economic health, but it has been trending downward for

over two years and is now at its lowest level in nine years. The general malaise among consumers has been jolted and made worse by terrorist attacks, drops in the stock market, news of corporate accounting scandals, and the weak job market. According to The Conference Board, Inc., the consumer confidence index for the four-state West South Central region, dominated by Texas, recovered for several months following the September 2001 terrorist attacks, but then zigzagged its way downward again.

Unemployment Topping Out

On average, the Texas unemployment rate was higher year-to-year in 2002 than in 2001, but after rising steadily for nearly a year and a half, its monthly levels remained stable, at around 6.2 percent over the last 8 months of the year. Texas' unemployment had fallen for 8 years, from 7.7 percent in 1992 to 4.2 percent in 2000. After reaching a monthly low of 3.9 percent in December 2000, a weakening economy was exacerbated by terrorist attacks, and it soared upward precipitously until the spring of 2002, when it reached 6.2 percent. Since then, however, the unemployment rate has stabilized and remained mostly unchanged. With the worst of major job layoffs over, the statewide jobless rate may have peaked for this cycle, barring major unpredictable negative events.

The Silver Lining is Productivity Growth

Since the productivity of Texas workers has increased at a faster rate than the loss of jobs, Texas avoided joining the nation in recession, but just barely. Texas skirted along with negligible growth. However, according to my office's econometric model of the Texas economy, the State's growth fell to an annualized rate of just below 1 percent in the second and third quarters of 2002, but productivity growth was sufficient to counterbalance the net loss of jobs in every quarter. Combined with the stronger quarters in 2001 and 2002, overall real gross state product growth was 2.8 percent in 2001 and 2.5 percent in 2002.

Outlook for 2003 and 2004

During the next two years, the Texas economy will gradually improve, but given the depth of the national and international slump and the characteristics of the markets, the process will be more gradual than is typical after economic downturns. My office predicts that real gross state product growth will edge upwards toward a more moderate 3.5 percent in 2003 and 4.2 percent in 2004. This compares to an average of 3.5 percent growth nationally during this period. With Texas' central Sunbelt location, relatively low costs, and sustained migration into the state, the State's gross product growth will continue to outperform the U.S. by nearly a half percentage point annually through 2005.

Looking Below the Surface at Individual Industries

Six out of eight of the state's major sectors lost jobs between November 2001 and November 2002, with only services and government showing year-over-year employment increases. Government added 37,200 jobs (a 2.3 percent increase), primarily because of greater hiring in local governments and in public schools. Services gained a net 2,600 jobs (a rather paltry 0.1 percent), with some subsectors growing and some declining.

Each of the other industries of the Texas economy lost jobs in 2002, with the greatest rates of loss in mining (4 percent) and manufacturing (3.3 percent).

Oil and Gas (Mining) has a Topsy Turvy Year

Oil and gas prices rose during most of 2002, but employment in the industry declined during the year. Tensions in Iraq provided a premium to oil prices, as did political unrest in Venezuela, and both these countries are sources for imported oil. Losses in the Texas rig count in the first half of 2002 were offset by gains in the second half, starting and ending the year at about 370 operating rigs statewide. There is typically a lag time of several months between an increase in oil prices and a re-igniting of oil and gas job hiring. Most of the job losses in mining, which is predominantly oil and

gas in Texas, were in the first half of 2002. During the second half of the year, mining employment was flat.

However, energy prices not only have to rise for employment growth to occur, but there needs to be a perception that the higher prices will be sustained. Oil and gas prices have stayed high in the face of political question marks in the Mideast and Venezuela; but based on economic fundamentals, my office's outlook for oil prices is that they will remain flat, if not decline from their recent annual averages, over the next few years.

Compared with a year earlier, November 2002's mining employment statewide was down 6,500 jobs, or 4 percent, although it has been stable over the past four months. A price-driven recovery in the oil and gas extraction sector was stymied somewhat by offshore weather in the fall and the concern that prices will slide down again with the eventual easing of political tensions in Iraq and Venezuela. Over the next two years, the outlook for the industry is rather lackluster. My office estimates Texas' mining employment will fall another 1.2 percent in 2003, followed by another 2.2 percent decline in 2004.

Construction Now Seeing a Loss of Jobs

Texas construction employment had its first loss of jobs, on an annual basis, since 1989. This may seem surprising, since the number of Texas housing starts, at about 158,000 in 2002, was near its highest level since the unsustainable boom in 1984. Even with the weak economy, historically low mortgage rates have kept up residential sales activity, to the degree that over the most recent three months (September-November 2002), the average price of a Texas house (at $153,200) was up 5.1 percent from a year before.

Nonresidential construction activity remains extremely feeble, and this has held back the overall construction sector. Texas commercial construction peaked in 2000 and has been dropping since, as businesses have substantially cut back their investment in structures. Office, retail, and other commercial vacancy rates remain high throughout Texas. Statewide nonresidential construction activity has declined nearly 17 percent from a peak of 162.3 million square feet in 2000 to 134.8 million square feet in 2002.

Now it appears that housing starts also have responded to the general economic malaise, and have begun to slump. One-time refinancing gains to disposable income are disappearing, and the relatively lower wage growth has pressured incomes enough that residential building began to drop off. Slow income growth is ongoing and mortgage rates are forecast to rise, so residential activity is expected to retrench somewhat in 2003. Commercial building activity will slide back further. Public construction, except for schools, has subsided. Overall, the short-term outlook for construction is weak.

The rate of construction job growth has been shrinking, from nearly 8 percent in calendar 1998, to 6.5 percent in 1999, to 5.5 percent in 2000, and to just over 1 percent in 2001, before the fractional decline in 2002. For 2003, Texas' construction employment is expected to fall by a substantial 3.3 percent, before reheating to a tenuous growth of 1 percent in 2004.

Manufacturing Accounts for Most of Texas' Lost Jobs in 2002

As in most of the country, Texas has experienced the largest number of its job losses over the past year in manufacturing, which accounted for 33,900 of the net 38,900 jobs lost. Statewide, manufacturing employment fell by 3.3 percent from November 2001 to November 2002, with most of these losses concentrated in computers and electronics, primary and fabricated metals, transportation equipment, and in apparel. Although the hemorrhaging of job losses has slowed in recent months, manufacturing has lost jobs every month since November 2000. Manufacturing employment statewide in 2002 dropped below 1 million for the first time since 1994, to total 994,900 in November 2002.

The outlook for manufacturing is tied to whether businesses bolster the industry with a stronger level of investment in new plants and manufactured equipment. Spending on communications equipment rebounded in the second half of 2002, but the long boom in the demand for building materials appears to be winding down. As in the past, the outlook for some manufacturing sectors will brighten, while the outlook for others will dim. The Institute for Sup-

ply Management's purchasing managers' index continues to hover around 50, which is the threshold where manufacturing expansion historically occurs.

Mideast instability has an indirect ripple effect on oil markets and other exporting countries in the commodity market. There is no direct reason prices should be higher if export flow remains constant. In sum, my office's forecast expects manufacturing employment to rebound, but not quickly. Texas manufacturing job growth should be 0.7 percent in 2003 and a marginally more robust 1.5 percent in 2004. The strongest rebound is expected in primary and fabricated metals, furniture and fixtures, and paper and plastics products.

Wholesale and Retail Trade Affected by the Weaker Economy

Despite the mostly weak economy, consumers have continued to spend relatively freely in 2002, especially on housing and automobile-related purchases. Consequently, household budgets have been stretched thin and credit problems are on the rise. State sales tax collections, of which just more than 50 percent come from households, were down 7.1 percent during calendar year 2002, compared to 1 year earlier. This compares to a 7.2 percent growth in 2001 and a 7.3 percent growth in 2000.

Texas consumer purchases primarily focused on buying new vehicles during the end of 2001 and the first half of 2002; but during the last four months of 2002, motor vehicle tax collections were down 9.9 percent from those a year earlier. Because of special financing offers that caused motor vehicle sales to overcome economic weakness during this time, total vehicle sales tax collections reached a still strong $2.85 billion during 2002, but down 5 percent from 2001. This compares to a 6 percent increase in 2001 and about a 10 percent average growth rate over the three previous years.

Among the high points of retail trade were eating and drinking establishments, which added a solid 9,400 jobs over the past year and bucked the generally downward trend in most of the retail trade sectors. Because of strong home sales, building materials (up 2,500 jobs) had the fastest rate of growth among the retail trade sectors, at 3.7 percent over the past year. Outside these two, the other retail trade sectors lost jobs. Overall, during calendar year 2002, Texas' wholesale trade employment fell by 6,400 jobs (1.2 percent) and retail trade fell by 11,300 jobs (0.7 percent).

Over the next two years, the fastest rates of growth in retail sales are expected in general merchandise—largely warehouse and discount—stores and miscellaneous/novelty retailers, including bookstores, drug stores, liquor stores, and Internet mail order. The slowest rates of growth will be in building materials, garden supplies, and food stores, but even here, improving growth will continue over the next two years. Both wholesale and retail trade will add jobs over the next few years, with retail trade eking out a slightly faster rate of growth. Overall trade employment should increase by 1.5 percent (about 33,000 jobs) in 2003 and 2.1 percent (about 48,000 jobs) in 2004.

Transportation, Communications, and Public Utilities Has its Worst Year Since 1983

Because of depressed airline travel, combined with the downturn in the state's once booming telecommunications industry and the collapse of Enron, transportation, communications, and public utilities experienced a weak year in 2002. While some segments of the transportation industry, such as transportation services and freight transportation, have begun to turn the corner, passenger-service transportation (primarily airlines) remains in a near-crisis situation. During the first seven months of 2002, airline passenger miles were down nearly 20 percent nationwide from a year earlier. And although the year-over-year loss in statewide air transportation employment peaked shortly after 9/11—at 11,800 in December 2001—sector employment was still down by 2,800, or 2.4 percent, from November 2001 to November 2002.

Communications employment shrank by 5.2 percent over the past year, a loss of 7,800 jobs. All segments of telecommunications—local, long distance, and wireless—have been suffering from falling prices and revenues. Investments in high bandwidth technologies have driven down costs, and bandwidth contract prices have slumped in the face of severe competition and resulting price wars. Public utilities

did not fare much better with an employment loss of 4.7 percent (3,700 jobs).

Over the past 12 months, transportation, communications, and public utilities employment statewide fell by 14,800 jobs, for a loss of 2.5 percent. Again, the recovery may be slow, especially in the telecommunications sector. Employment is expected to increase by 1.3 percent in 2003 and 2.3 percent in 2004.

Finance, Insurance, and Real Estate down because of Stock Market

More than any other factor, poor stock market performance hurt finance, insurance, and real estate (FIRE) in 2002. From November 2001 to November 2002, security and commodity dealers and holding companies lost 3,200 jobs in Texas. Real estate, banks, and insurance shared a mostly flat year, which was positive only in the sense that it outperformed the overall economy. Security and commodity dealers, however, lost nearly 7 percent of their statewide employment in 12 months, while holding and investment companies lost nearly 5 percent. The continued struggles in the stock and other investment markets led to the slide in the sector, while word of corporate accounting scandals only exacerbated the problems.

Overall, FIRE lost 3,000 jobs over the past year (0.6 percent), and the outlook is that recovery will not come to the sector until the end of 2003. FIRE employment losses in 2003 are expected to be 2 percent, with just a hint of growth above zero in 2004. According to my office's forecast model, insurance may see small gains in both years, but higher interest rates and a weaker housing market will be a drag on banking, real estate, and investment finance.

Services Ekes out a Small Gain in 2002

The services industry lost jobs for the first time in 2001, but got back in the black in 2002—just barely. In all, health, business, legal, engineering, and other services added 2,600 jobs from November 2001 to November 2002. On the plus side, health services added 16,300 jobs and social services added 4,700, in addition to smaller gains in sectors such as agricultural services (2,300), engineering and management services (2,300), and private educational services (2,100).

On the other hand, business services employment, including previously booming personnel supply businesses, dropped 4 percent, a net 27,400 lost jobs over the past year. The silver lining in this bad news is that many of these were part-time, temporary jobs. Services has already witnessed a bottoming out in job losses, and is expected to come back in 2003 with an increase of 66,000 jobs, or 2.4 percent, largely in response to renewed growth in business services and continued relative strength in health services. As business services employment gets back up to speed in 2004, the services industry is expected to grow even faster in 2004, at over 3.4 percent.

Government is the Largest Locomotive

Although services posted a small gain in 2002, government was the largest locomotive pulling Texas' employment growth engine during the year. Local government employment, including mainly jobs in public schools, grew by a vital 27,800 jobs over the past 12 months. The federal government (up 5,400) and state government (up 4,000) also added jobs in response to higher service demands.

Not surprisingly, government will likely grow more slowly in 2003 and 2004 than it did in 2002, as the long-awaited recovery in the national economy occurs and ripples beneficially through the Texas economy. After all levels of government added 37,200 jobs in 2002, for a growth rate of 2.3 percent, the government sectors are expected to add about 1.8 percent annually in 2003 and 2004. The fastest growth rates are expected, for a change, in the federal government sector and will be related in large part to increased security measures.

Major Initiatives

Limited Government, Unlimited Opportunity

I recently released my e-Texas report, *Limited Government, Unlimited Opportunity*, to the Legislature. My office has identified savings and additional revenue of $1.7 billion in general revenue funds for the biennium. We've also iden-

tified another $2 billion in savings and revenue gains for other funds in the state budget, for a total of nearly $3.65 billion. You can view the report on my *Window on State Government* Web site at www.window.state.tx.us/etexas2003/. I will continue to search for additional savings, monitor the economy, and report to the Legislature as necessary.

Proposals focused on three areas of state government—education, health and human services, and general government. Education proposals addressed accountability and funding needs for both public and higher education in the state. Health and human services proposals identify cost containment strategies in programs ranging from Medicaid drug purchasing to the transportation of Medicaid clients. General government proposals address other key state programs, including the consolidation of agencies and improved efforts to collect unpaid taxes.

Texas Tomorrow Funds

This program offers two choices to Texas families who are saving money for their children and grandchildren's college funds. One program, the Texas Guaranteed Tuition Plan, was created by the 1995 Texas Legislature. This program locks in the cost of tomorrow's college tuition and required fees at today's prices. The second program, Texas Tomorrow's College Investment Plan, was created by the 2001 Legislature. The Investment Plan is a state-sponsored program that allows families to invest college savings to earn a potentially greater return than a usual savings account. Twenty different investment portfolios offer the opportunity for tax-free growth of the investments. Tax-free withdrawals on earnings used for qualified education expenses are included in this plan. Investments are subject to market risk, including the potential loss of principal invested. The investments in the plan are not guaranteed by the State of Texas or any other entity. There is a year-round enrollment period with no age requirements and the account owner and beneficiary must both be U.S. citizens.

Unclaimed Property

The State of Texas is holding nearly $1 billion in unclaimed money and property, and the amount grows every year. After the annual publishing of the Unclaimed Property List in Texas as well as NBC's Dateline program airing a special on unclaimed property across the nation, my Web site received a month's worth of hits in one day, over 1 million, in October 2002. As of October 2002, I have reunited Texans with approximately $211 million in unclaimed property since I took office in 1999. My office received 40,869 claims between October 20, 2002, when the Unclaimed Property List appeared in Texas newspapers, and October 30, 2002. That number was up substantially from the 25,875 claims in the 10 days following the publication of the 2001 list.

The Texas War Relief Package

This package, which was published in November 2001, contains my plan of action to support the families and children of Texas men and women in harm's way, plus other actions to strengthen the state's preparedness for disaster situations. My package included 20 proposals that were immediately implemented and another 50 that require legislation. My report included administrative and legislative proposals to provide financial, educational, and personal assistance to our military, police officers, public safety, and emergency management personnel and their families, and proposals to enhance our readiness to deal with emergencies.

Texas School Performance Review

Since 1991, the Texas School Performance Review (TSPR) has conducted 85 reviews in Texas including more than 6,900 recommendations for those districts to save a combined $730 million over five years. In addition, TSPR has conducted three reviews of higher education institutions, including Texas Southern University, El Paso Community College, and Austin Community College. TSPR has two additional higher education reviews underway in the Houston Community College System and the Alamo Community College District. The three completed higher education reviews have resulted in 300 additional cost-saving recommendations and a potential five-year savings of $30 million for these institutions.

Beginning in September 2000, TSPR increased the number of reviews it conducts to 20 per fiscal year. Approximately 12 to 18 months after each initial review, TSPR returns to the school district or higher education institution to check on their progress and to solicit their suggestions for improving the TSPR process. As a result of these progress reports, TSPR has found that more than 90 percent of the recommendations are being voluntarily implemented, resulting in reported actual savings of nearly $120 million to the districts in just 12 to 18 months since implementation began.

TexasOnline

In 1999, the Texas Legislature established the Electronic Government Task Force to assess the feasibility of establishing a state portal. The pilot Internet portal was launched in September 2000 through a public-private partnership. In 2001, the TexasOnline Authority succeeded the Task Force and the portal transitioned from a pilot initiative to fully operational. By January 2002, the State of Texas Web site was consolidated into the TexasOnline Web site.

In January 2001, TexasOnline offered four services: insurance license renewals, sales tax payments, real estate license renewals, and air conditioning and repair license renewals. By May 2002, there were 37 live services in operation. TexasOnline is now rolling out new services at a rate of approximately six per month, including both state and local government applications and information. TexasOnline currently provides driver license renewals, property tax payments, state sales tax payments, and numerous occupational and professional license renewal services. The portal receives 900,000 visits monthly. Through May 2002, more than $130 million in state dollars were collected through the site.

In the future, TexasOnline will provide enhanced, increasingly interactive services, such as packaged local government services and Internet jury impaneling. The first phase of a Health and Human Services Portal, linked to TexasOnline, is scheduled to go live in June 2003.

Texas is the only state to provide a single portal serving both state and local governments and has been recognized nationally by several organizations, including the Center for Digital Government, *Government Executive,* and NACHA, the Electronic Payments Association.

Economic Development

During the summer and early fall of 2002, my office held 19 Regional Economic Summits throughout Texas. The purpose of these summits was to share the economic outlook for the State and each region, and to hear from citizens about both opportunities for and obstacles to economic growth in their regions. Comments during these meetings included concerns about school finance, ideas for improving biotech investments, and calls for increasing transportation funding.

As a result of the Summits, I formed a Blue Ribbon Economic Committee to study the numerous ideas and suggestions raised throughout the state. The Committee will prepare a list of recommendations to be presented during the 2003 Texas Legislative Session.

Accounting System and Budgetary Controls

The Management's Discussion and Analysis (MD&A), in the financial section, provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund, State Highway Fund, Permanent School Fund, Colleges & Universities, Texas Water Development Board Funds, Veterans Land Board Loan Program Funds, and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The State's financial statements for governmental funds including general, special revenue, debt service, capital projects, and permanent funds have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide statements (Statement of Net Assets and Statement of Activities), Proprietary

(including Colleges and Universities), Pension and Other Employee Benefit Trust, External Investment Trust, Private-Purpose Trust, and Agency Funds are accounted for on the accrual basis. A summary of the State's significant accounting policies and other necessary disclosures are included in the notes to the financial statements.

The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections, and the Governor has signed the bill. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in Note 1.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Risk Management

The State assumes substantially all risks associated with:

- Claims of state employees for unemployment compensation.
- Claims of state employees covered by the state self-insured health care plan, Health Select.
- Claims of covered employees for workers' compensation benefits.
- General tort claims that parties may file against the State or its officials, employees, or appointees.
- Liability claims against the State or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

Independent Audit

The State Auditor has performed an audit in accordance with generally accepted auditing standards of the State's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The State Auditor has contracted with KPMG to perform federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. KPMG's report, Federal Portion of Statewide Single Audit Report, for the year ended August 31, 2002, will be issued separately.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2001. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Texas has received a Certificate of Achievement for the last 12 years (fiscal years ended August 1990 through 2001). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

In any year, the preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout the State, both individually and in teams from virtually all agencies. I sincerely appreciate the dedicated efforts of all these individuals. This year, my office implemented several new GASB standards, including Statement No. 34 requirements. Achieving this is the result of the dedicated management and staff of my Financial Reporting Section; the chief financial officers, chief accountants, and their staff at each agency; and the management and staff of the State Auditor's Office, who continue to strive for improvements that will result in Texas being a national leader in quality for financial reporting.

Sincerely,

Carole Keeton Strayhorn
Texas Comptroller

State of Texas Comprehensive Annual Financial Report

State of Texas
Elected State Officials

Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Carole Keeton Strayhorn
State Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Susan Combs
Commissioner of Agriculture

Charles R. Matthews
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor, David Dewhurst, presides over the Senate

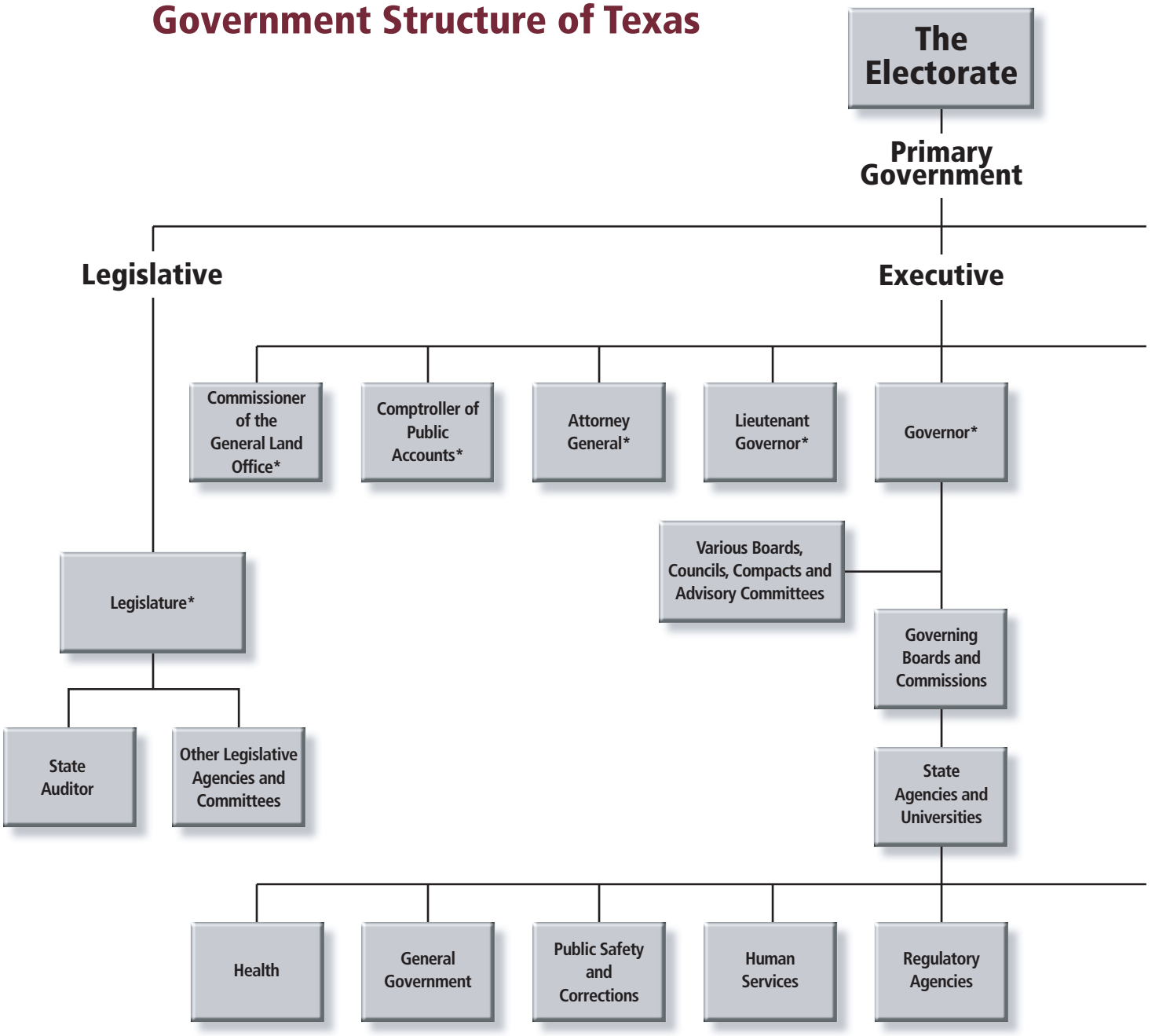
Tom Craddick
Speaker of the House of Representatives

Judicial

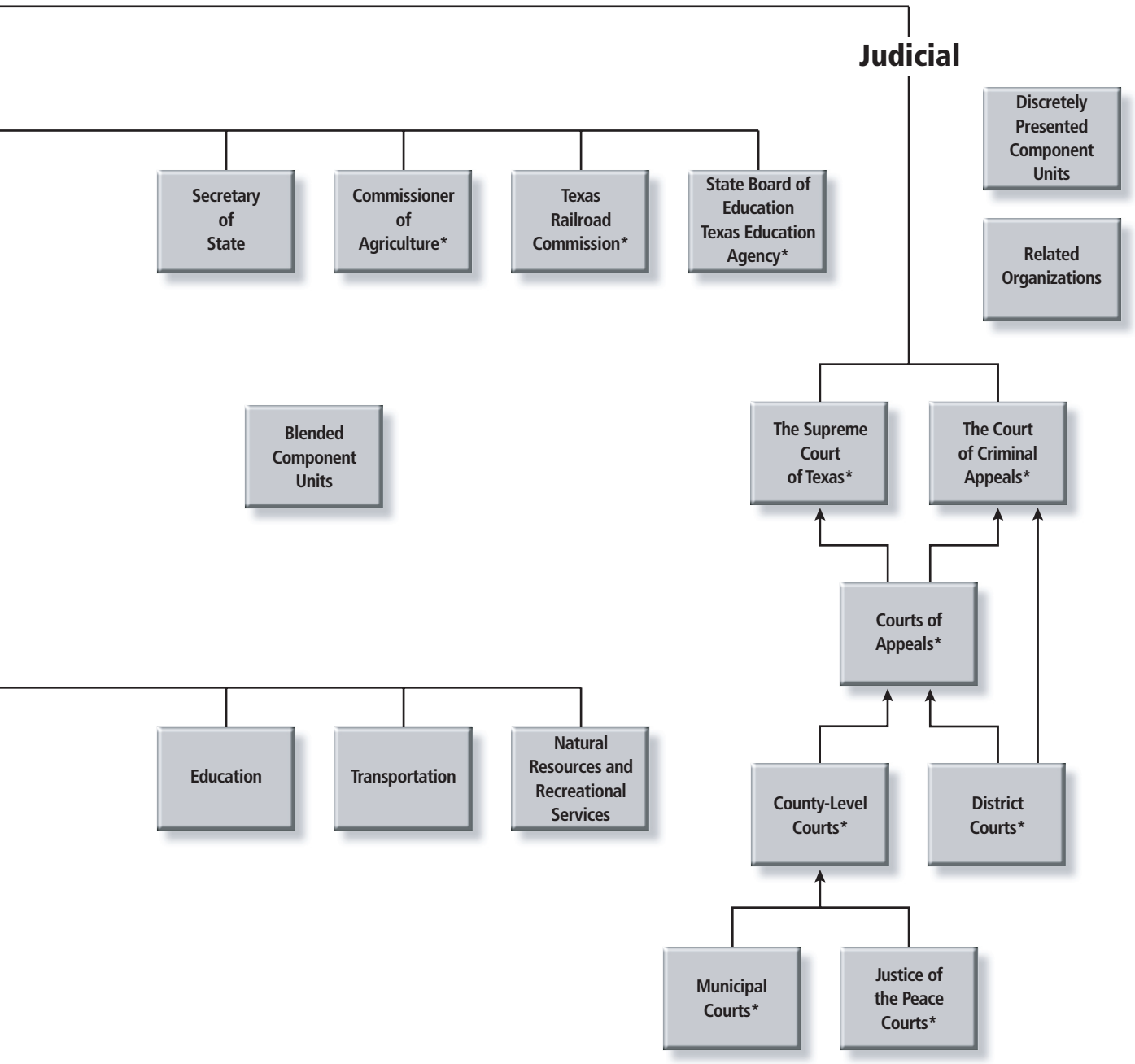
Thomas R. Phillips
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



*Elected Offices


Judicial
Discretely Presented Component Units
Related Organizations
Secretary of State
Commissioner of Agriculture*
Texas Railroad Commission*
State Board of Education Texas Education Agency*
Blended Component Units
The Supreme Court of Texas*
The Court of Criminal Appeals*
Courts of Appeals*
Education
Transportation
Natural Resources and Recreational Services
County-Level Courts*
District Courts*
Municipal Courts*
Justice of the Peace Courts*

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Financial Section

South Padre Island

Galveston 1909

State Auditor's Office
Lawrence F. Alwin, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

February 24, 2003

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Strayhorn, Comptroller of Public Accounts
and
Members of the Legislature, State of Texas

Ladies and Gentlemen:

We have audited the accompanying basic financial statements, as listed in the Financial Section of the Table of Contents, of the State of Texas as of and for the year ended August 31, 2002. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express an opinion on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO), which composes 50 percent of the assets of Colleges and Universities, a major enterprise fund. UTIMCO also constitutes 34 percent of the assets of the business-type activities.

- The Texas Department of Housing and Community Affairs, the Texas Prepaid Higher Education Tuition Board, the Texas Lottery Commission, the Texas Local Government Investment Pool (Pool), and the Employees Retirement System of Texas, which constitute 31 percent of the assets of the remaining fund information. Remaining fund information includes the nonmajor governmental funds, nonmajor enterprise funds, internal service funds, and fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and the Pool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State of Texas as of August 31, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Austin, Texas 78701

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www.sao.state.tx.us

SAO No. 03-405

The management's discussion and analysis, the budgetary comparison schedule, and the modified approach to reporting infrastructure assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

As discussed in Note 1 to the basic financial statements, the State of Texas has adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*; Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* in fiscal year 2002.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Lawrence F. Alwin, CPA
State Auditor

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Management's Discussion and Analysis

Austin

Congress Avenue 1895

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Texas' financial performance, providing an overview of the state's financial activities for the fiscal year ended August 31, 2002. Use this section in conjunction with the state's basic financial statements.

GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Colleges and Universities - as amended for GASB Statement No. 34*, establish new reporting requirements for state and local governments. The new reporting requirements implemented for these statements include new information and restructure the presentation of previous fiscal years. Consequently, for this 2002 implementation year, the presentation of comparative data is not available or required. Comparative data will be available and presented for the 2003 report.

Overview of the Financial Statements

The state's financial reporting for fiscal year 2002 uses a substantially revised format as compared to previous years. The new reporting focus is on the state as a whole, and on the major individual funds. This new reporting focus presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

This annual report presents the state's financial activities and position in four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information other than management's discussion and analysis, and other supplementary information presenting combining statements for nonmajor governmental funds, enterprise funds, fiduciary funds, and component units. The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements, and notes that provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The statement of net assets combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets is the difference between the state's assets and liabilities, and represent one measure of the state's financial health.

Another indicator of the state's financial health includes the condition of its roads and highways (infrastructure), and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-

type, and component unit); these costs are paid by the government's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services, and includes all current year revenues and expenses.

The statement of net assets and the statement of activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreational services, and regulatory. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable, or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the government-wide statements. The state includes 39 separate legal entities in notes to this report.

Reporting on the State's Most Significant Funds

Fund financial statements present financial information in a form more familiar to experienced users of governmental financial statements. However, these statements now focus on the most significant funds. Use these statements to find more detailed information about the state's most significant activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds, and amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help you determine whether there are more or less resources available for the state's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of net assets and government-wide statement of activities, and the governmental funds. The General Revenue Fund, State Highway Fund, and Permanent School Fund are reported as major funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in internal service funds, the other component of proprietary funds. The state's Employee's Life, Accident, and Health Insurance Benefits Fund is reported as the only internal service fund.

Colleges and Universities, Texas Water Development Board Funds, Veterans Land Board Loan Program Funds, and the Texas Department of Transportation Turnpike Authority are shown as major funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee, or fiduciary, for seven defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The activities are reported separately from other financial activities because the state cannot use these assets to finance state operations and is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Since comparable numbers are not prepared for prior years, the analysis of the government's overall financial position stating whether financial condition has improved or deteriorated is not required. This information will be provided with the fiscal year 2003 report.

Net Assets

Total assets of the state on August 31, 2002, were $133.2 billion, while total liabilities were $38.4 billion, resulting in a net asset balance of $94.8 billion. Of the state's net assets, $52.5 billion were invested in capital assets, net of related debt, while $34.5 billion were restricted by statute or other legal requirements, and were not available to finance day-to-day operations of the state. Unrestricted net assets were $7.9 billion.

The state's bonded indebtedness was $14.8 billion which included issuances of $3.5 billion in state bonds to finance new construction, housing, water conservation, and other projects. Approximately $1 billion in bonded debt was retired or refunded.

Statement of Net Assets
(In Thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Assets Other Than Capital Assets	$ 37,358,861	$ 36,378,951	$ 73,737,812
Capital Assets	50,469,549	9,023,775	59,493,324
Total Assets	87,828,410	45,402,726	133,231,136
LIABILITIES			
Current Liabilities	13,998,925	4,746,484	18,745,409
Non-Current Liabilities	4,353,439	15,259,831	19,613,270
Total liabilities	18,352,364	20,006,315	38,358,679
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	47,321,790	5,141,823	52,463,613
Restricted	20,088,960	14,413,670	34,502,630
Unrestricted	2,065,296	5,840,918	7,906,214
Total Net Assets	$ 69,476,046	$ 25,396,411	$ 94,872,457

Changes in Net Assets

The state earned program revenues of $36.4 billion and general revenues (including Extraordinary Items) of $28.2 billion, for total revenues (including Extraordinary Items) of $64.6 billion. The expenses of the state were $68.7 billion. As a result of expenses exceeding revenues, the state's total net assets were $94.8 billion. Revenues and expenses of the state's governmental and business-type activities are detailed below.

Changes in Net Assets
(In Thousands)

	Governmental Activities	Business-Type Activities
REVENUES		
Program Revenues:		
Charges for Services	$ 3,976,038	$ 9,308,464
Operating Grants and Contributions	17,563,832	3,299,297
Capital Grants and Contributions	2,191,470	51,930
General Revenues:		
Taxes	25,432,682	
Unrestricted Investment Earnings	383,608	108,831
Settlement of Claims	512,579	2,579
Gain on Sale of Capital Assets		750
Capital Contributions		112,088
Other Revenue	618,981	301,020
Contributions to Permanent and Term Endowments		101,473
Total Revenues	50,679,190	13,286,432
EXPENSES		
General Government	1,947,049	
Education	15,831,226	
Employee Benefits	14,757	
Teacher Retirement Benefits	1,201,886	
Health and Human Services	22,817,118	
Public Safety and Corrections	4,170,817	
Transportation	3,576,274	
Natural Resources and Recreational Services	736,111	
Regulatory Agencies	273,023	
Interest on Long-Term Debt	403,784	
Colleges & Universities		12,195,316
Texas Water Development Board		149,767
Veterans Land Board Loan Program		136,556
Texas Department of Transportation Turnpike Authority		13,011
Other Business-Type Activities		5,317,618
Total Expenses	50,972,045	17,812,268
Excess (Deficiency) before Extraordinary Items and Transfers	(292,855)	(4,525,836)
Extraordinary Item		603,679
Transfers	(3,171,399)	3,171,399
Increase (Decrease) in Net Assets	(3,464,254)	(750,758)
Net Assets, September 1, 2001	72,940,300	26,147,169
Net Assets, August 31, 2002	$ 69,476,046	$ 25,396,411

Net Cost of the State's Governmental Activities
(In Thousands)

	Total Cost of Services	Net Cost of Services
General Government	$ 1,947,049	$ 50,296
Education	15,831,226	14,041,237
Employee Benefits	14,757	14,357
Teacher Retirement Benefits	1,201,886	1,201,886
Health and Human Services	22,817,118	7,189,491
Public Safety and Corrections	4,170,817	3,702,240
Transportation	3,576,274	284,310
Natural Resources and Recreatonal Services	736,111	148,562
Regulatory Agencies	273,023	204,542
Interest on Long-Term Debt	403,784	403,784
Total	$ 50,972,045	$ 27,240,705

Net Cost of the State's Business-Type Activities
(In Thousands)

	Total Cost of Services	Net Cost (Income) of Services
Colleges and Universities	$ 12,195,316	$ 5,194,937
Texas Water Development Board	149,767	(90,935)
Veterans Land Board Loan Program	136,556	(9,207)
Texas Department of Transportation Turnpike Authority	13,011	(42,721)
Other Business-Type Activities	5,317,618	100,503
Total	$ 17,812,268	$ 5,152,577

Governmental Activities

The governmental activities program revenue is $23.7 billion, including charges for services of $4.0 billion, operating grants and contributions of $17.6 billion and $2.1 billion reported in capital grants and contributions. Governmental activities expenses were $50.9 billion, resulting in a net cost of governmental services of $27.2 billion.

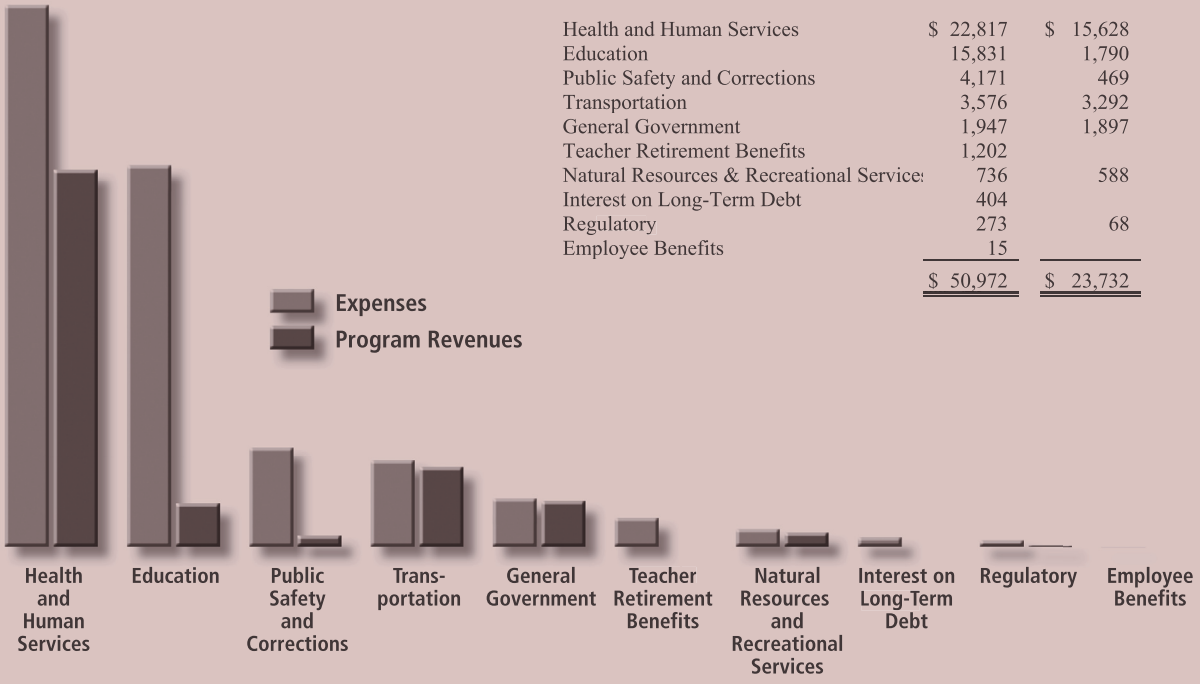
Business-Type Activities

Business-type activities generated program revenue of $12.7 billion, including charges for services of $9.3 billion, operating grant and contributions of $3.3 billion and $52 million reported in capital grants and contributions. The total expenses for business-type activities were $17.8 billion, resulting in a net cost from the government's business-type activities of $5.1 billion.

Expenses and Program Revenues
Governmental Activities

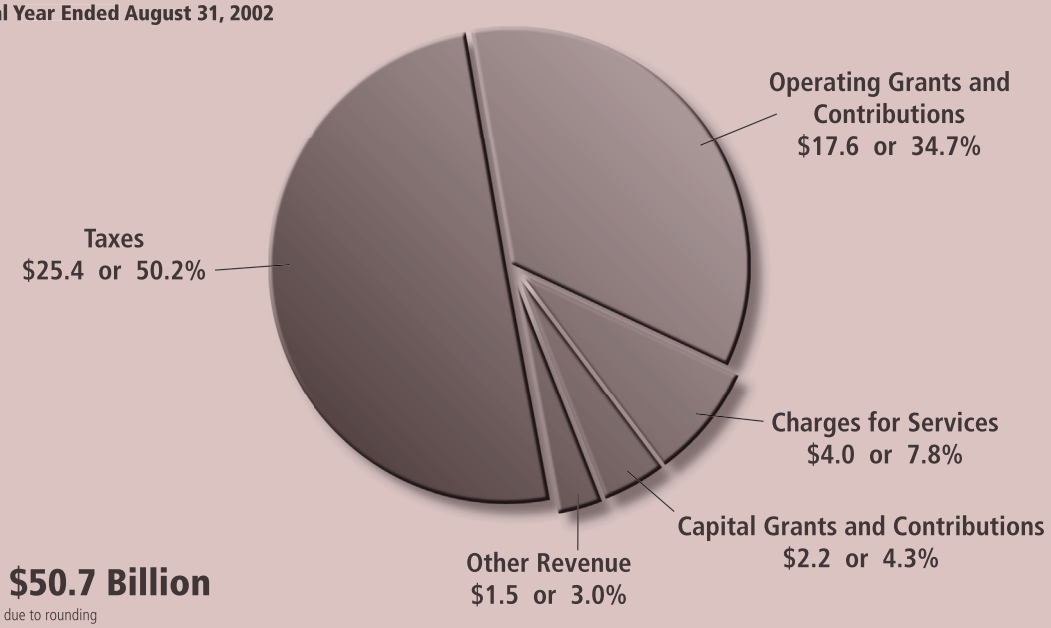
For the Fiscal Year Ended August 31, 2002 (In Millions)

Accounts	Expenses	Program Revenues
Health and Human Services	$ 22,817	$ 15,628
Education	15,831	1,790
Public Safety and Corrections	4,171	469
Transportation	3,576	3,292
General Government	1,947	1,897
Teacher Retirement Benefits	1,202	
Natural Resources & Recreational Services	736	588
Interest on Long-Term Debt	404	
Regulatory	273	68
Employee Benefits	15	
	$ 50,972	$ 23,732



Revenue by Source
Governmental Activities

For the Fiscal Year Ended August 31, 2002
(In Billions)*



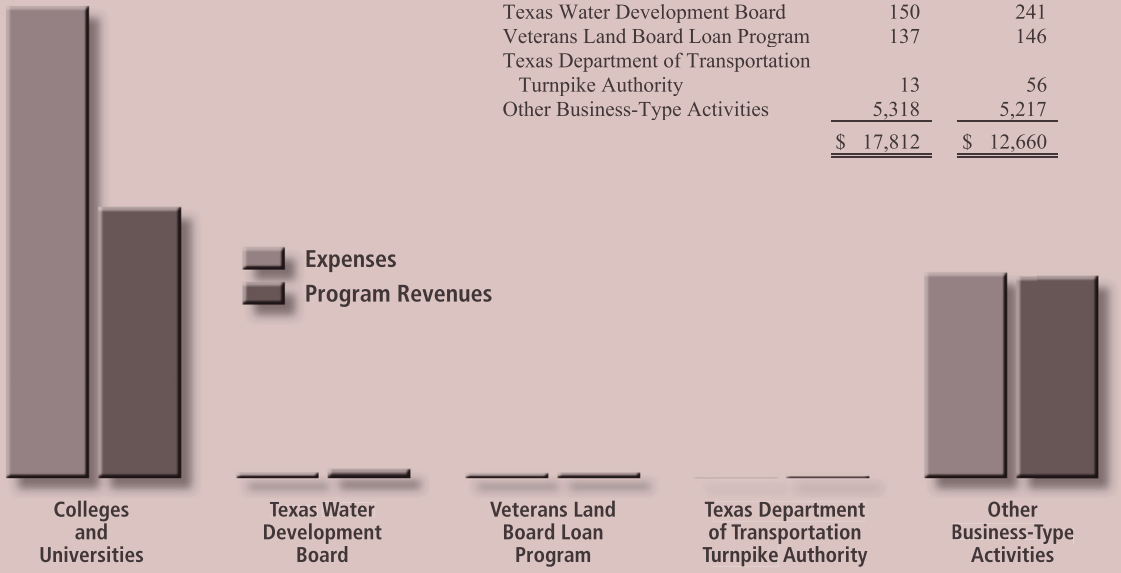
Total = $50.7 Billion

*Totals may not add due to rounding

Expenses and Program Revenues
Business-Type Activities

For the Fiscal Year Ended August 31, 2002 (In Millions)*

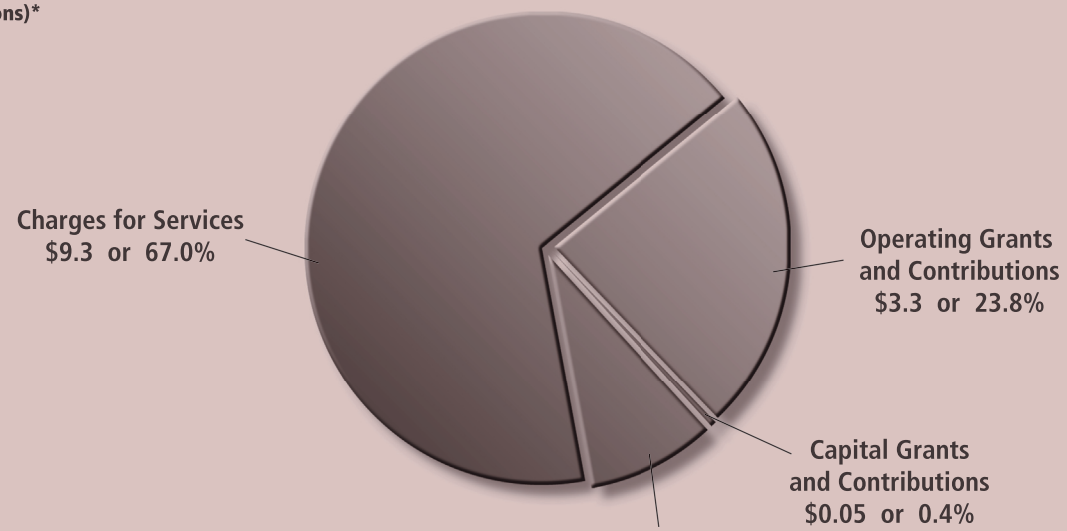
Accounts	Expenses	Program Revenues
Colleges & Universities	$ 12,195	$ 7,000
Texas Water Development Board	150	241
Veterans Land Board Loan Program	137	146
Texas Department of Transportation Turnpike Authority	13	56
Other Business-Type Activities	5,318	5,217
	$ 17,812	$ 12,660



*Totals may not add due to rounding

Revenue by Source
Business-Type Activities

For the Fiscal Year Ended August 31, 2002
(In Billions)*



Total = $13.9 Billion

*Totals may not add due to rounding

Financial Analysis of the State's Funds

Governmental Funds

Receivables and deferred revenues reported in the state's general fund were $3.5 billion and $1.7 billion, respectively. There was a change in methodology for revenue recognition of taxes. This methodology change also resulted in tax revenue equaling $25.1 billion.

Governmental funds reported $5.8 billion in Tax and Revenue Anticipation Notes (TRAN), which settled on August 29, 2002.

Proprietary Funds

Capital Asset balances were $9 billion. The state has changed its capitalization threshold policy for all proprietary funds and has included depreciation for colleges and universities. See Note 2 for the details.

Loans and Contracts were $3.2 billion; a huge portion of these balances is attributable to Texas Water Development Board Funds.

Fiduciary Funds

Pension and Other Employee Benefit Trust Funds total net assets were $89.1 billion. External Investment Trust Funds total net assets were $10.3 billion, the majority of which was attributable to participant growth in the Texas Government Investment Pool (TexPool) Trust Fund.

Budgetary Highlights

Variances for the General Fund

Final budget compared to original budget showed several differences with the material difference being in federal funds. Federal funds budgeted in the final column of $15.7 billion were higher than the original estimate of $14 billion. This variance reflects higher federal receipts. The Health and Human Services area receives the largest portion for medical aid and public assistance and those agencies are allowed to expend all federal funds received. Federal funds are estimated, with the understanding that all federal funds received will be appropriated to the agencies. The education program also receives a large amount of federal funds.

Final Budget compared to Actual Amounts Budgetary Basis was higher by $2.6 billion in the Health and Human Services area. In the Other Financing Sources (Uses) section, Transfers Out exceed Transfers In by $6.7 billion in the final column and by $8.6 billion in the actual column. The net difference of transfers between final and actual columns of $2 billion offsets the Health and Human Services variance of $2.6 billion dollars in the Expenditure section.

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2002, the state had $59.5 billion in net capital assets, of which $39.7 was infrastructure. The state's capital assets include land, buildings, furniture and equipment, vehicles, boats, and aircraft. The details of capital assets are shown in Note 2.

Capital Assets – Net of Depreciation
(In Thousands)

	Governmental Activities	Business-Type Activities	Total
Land	$ 5,202,129	$ 466,826	$ 5,668,955
Infrastructure	39,551,878	195,132	39,747,010
Buildings	2,892,868	4,054,816	6,947,684
Facilities and Improvements	78,991	372,244	451,235
Furniture and Equipment	262,055	825,047	1,087,102
Construction in Progress	1,931,484	1,753,940	3,685,424
Vehicles, Boats and Aircraft	337,728	58,168	395,896
Other Assets	212,416	1,297,602	1,510,018
Total Capital Assets	$ 50,469,549	$ 9,023,775	$ 59,493,324

Outstanding Bonded Debt

As of August 31, 2002
(In Thousands)

	Governmental Activities	Business-Type Activities	Total
General Obligation Bonds Payable	$ 3,080,731	$ 2,670,594	$ 5,751,325
Revenue Bonds Payable	809,128	8,263,757	9,072,885
Total Bonds Payable	$ 3,889,859	$ 10,934,351	$ 14,824,210

Debt Administration

The State of Texas issues both General Obligation bonds and Revenue bonds. Each issue of revenue bonds is designed to be self-supporting from a primary revenue source related to the program financed. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution.

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's Corporation, and AA+ by Fitch IBCA, as of August 31, 2002.

During fiscal year 2002, Texas' state agencies and universities issued $3.5 billion in state bonds to finance new construction, housing, water conservation and treatment, and other projects. General obligation debt accounted for $812 million of state bonds issued in fiscal year 2002. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $2.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired were composed of $296 million in general obligation bonds and $311 million in revenue bonds during the year. Also, $36 million in general obligation bonds and $372 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements, and refundings as of August 31, 2002, was $5.8 billion. An additional $5.1 billion is authorized but has not been issued. Total revenue bonds outstanding were $9.1 billion. An additional $3.4 billion was authorized but not issued. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonds.

Cash Management

Funds deposited in the State Treasury are pooled for investment purposes. The Treasury is authorized to invest in now accounts, time deposits, obligations of the United States, obligations of various federal credit organizations, repurchase agreements, reverse repurchase agreements, banker's acceptances, commercial paper, and mutual funds.

During fiscal year 2002, the average investment portfolio consisted of the following:

Average Investment Portfolio *

(In Thousands)

Investment Type	Percent of Total	Average Amount Invested	Average Interest Rate
Now Accounts	0.3 %	$ 32,824	0.294 %
Time Deposits	0.3	28,852	2.094
BidTX	4.1	423,728	2.703
Repurchase Agreements	22.7	2,333,119	2.591
U.S Treasury & Agency Securities	56.7	5,812,931	3.963
U.S. Treasury (Lottery)	8.5	866,455	**
Commercial Paper	4.3	438,193	2.348
Mutual Funds	7.8	801,372	2.172
Subtotal	104.7	10,737,474	
Reverse Repurchase Agreements	(4.7)	(478,452)	1.804
Total	100.0 %	$ 10,259,022	3.428

* The above numbers include primary government funds only.
** The yield for the lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

Infrastructure Assets

In the past, the state's road and highway infrastructure assets have not been reported or depreciated in the financial statements. Under the new reporting model, beginning with this set of financial statements, the value of the state's infrastructure assets will be included in the governmental activities column of the government-wide statements.

The state has elected to account for its system of roads and highways using the modified approach allowed by GASB Statement No. 34. The Texas Department of

Transportation has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition index of at least 80% and its farm-to-market and other road systems at a condition level of 75%. The most recent assessment found that the state's highways were within these parameters, with the condition of interstate highways at 82.5% and farm-to-market roads at a condition index rating of 78.7%.

Additional information on the state's road and highway infrastructure is presented in the Financial Section's Required Supplemental Information Other Than MD&A.

Economic Condition and Outlook

The nation lost 0.9 percent of its jobs during calendar year 2002, and because of the similarity between the Texas and national economies today, Texas lost a similar 0.8 percent of its employment during the year. This is down from an employment gain of 0.9 percent in Texas in 2001. Because of its weakest economic year in over a decade, the state's unemployment rate rose, on the average, from 4.9 percent in 2001 to 6 percent in 2002, for its highest average rate since 1995. The nation's unemployment rate rose also, from 4.8 percent in 2001 to 5.8 percent in 2002.

Texas' real gross state product rose by an estimated 2.5 percent in 2002, while personal income advanced by an estimated 3.3 percent. Although lower than in recent years, these growth rates still exceeded the 1.6 percent inflation rate for the year.

The state's revenue decreased during 2002. The estimated ending balance for the 2002-03 biennium is a negative $1.8 billion. The revenue estimate for the 2004-2005 biennium shows $54.1 billion to be available for general purpose spending, down 9.8 percent from the available revenue in 2002-03. The softening revenue represents an economic and revenue challenge for the near future.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, and investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting Section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

Basic Financial Statements

Waco
1910

San Antonio
1910

State of Texas
Statement of Net Assets
August 31, 2002 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents (Note 3)	$ 10,781,719	$ 2,448,779	$ 13,230,498	$ 120,843
Securities Lending Collateral (Note 3)	2,254,301	634,109	2,888,410	
Investments (Note 3)	549,072	785,006	1,334,078	143,022
Restricted:				
Cash and Cash Equivalents (Note 3)	5,929	1,504,586	1,510,515	23,735
Investments (Note 3)		1,647,925	1,647,925	
Loans and Contracts	413	51,553	51,966	
Receivables:				
Taxes	2,092,369		2,092,369	21
Federal	1,311,555	237,664	1,549,219	33,932
Other Intergovernmental	363,213	22,681	385,894	
Accounts	323,320	513,605	836,925	11,940
Interest and Dividends	188,941	197,498	386,439	2,985
Gifts		72,671	72,671	440
Other	43,710	845,160	888,870	12,396
From Fiduciary Funds	41,385		41,385	
Due From Primary Government (Note 12)				65
Inventories	225,182	104,504	329,686	620
Prepaid Items	4,313	63,199	67,512	1,816
Loans and Contracts	107,474	285,088	392,562	29,111
Other Current Assets	797	118,442	119,239	815
Total Current Assets	18,293,693	9,532,470	27,826,163	381,741
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents (Note 3)		33,814	33,814	169
Short Term Investments (Note 3)		35,469	35,469	
Investments (Note 3)		17,046,400	17,046,400	25,780
Receivables	126,309	446,238	572,547	
Loans and Contracts	590,107	2,442,706	3,032,813	87,180
Other	11	15,157	15,168	
Internal Balances (Note 12)	8,498	(8,498)		
Loans and Contracts	468,114	2,943,246	3,411,360	
Investments (Note 3)	17,706,702	3,597,748	21,304,450	308,901
Gifts		135,877	135,877	
Capital Assets: (Note 2)				
Capital Assets - Non-Depreciable	40,551,420	3,482,436	44,033,856	258
Capital Assets - Depreciable	19,875,853	12,748,204	32,624,057	83,629
Accumulated Depreciation	(9,957,724)	(7,206,865)	(17,164,589)	(39,560)
Assets Held in Trust		73,836	73,836	
Net Pension Asset (Note 9)	143,381		143,381	
Other Non-Current Assets	22,046	84,488	106,534	8,127
Total Non-Current Assets	69,534,717	35,870,256	105,404,973	474,484
Total Assets	87,828,410	45,402,726	133,231,136	856,225

Concluded on the following page

State of Texas
Statement of Net Assets (concluded)
August 31, 2002 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 3,018,587	$ 730,975	$ 3,749,562	$ 22,619
Payroll	470,289	129,244	599,533	3,655
Other Intergovernmental	208,826	2,504	211,330	423
Federal	5,016	28,814	33,830	42,257
Other	470,552		470,552	
To Fiduciary Funds	4,550		4,550	
Internal Balances (Note 12)	449,008	(449,008)		
Due To Component Units (Note 12)	65		65	
Deferred Revenue	554,312	1,334,676	1,888,988	42,839
Obligations/Reverse Repurchase Agreement	173,989		173,989	
Obligations/Securities Lending	2,254,301	634,109	2,888,410	
Tax and Revenue Anticipation Note (Note 4)	5,822,475		5,822,475	
Claims and Judgments (Note 5)	3,779	3,568	7,347	
Capital Lease Obligations (Note 5, 7)	3,202	1,714	4,916	25
Employees' Compensable Leave (Note 5)	290,455	47,544	337,999	1,094
Notes and Loans Payable (Note 5)	4,913	533,333	538,246	56,945
General Obligation Bonds Payable (Note 5, 6)	190,500	124,955	315,455	
Revenue Bonds Payable (Note 5, 6)	74,106	249,900	324,006	12,680
Liabilities Payable From Restricted Assets (Note 5)		892,048	892,048	
Funds Held for Others		123,492	123,492	
Other Current Liabilities		358,616	358,616	10,135
Total Current Liabilities	13,998,925	4,746,484	18,745,409	192,672
Non-Current Liabilities:				
Claims and Judgments (Note 5)	197,906	44,003	241,909	
Capital Lease Obligations (Note 5, 7)	48,672	17,872	66,544	2
Employees' Compensable Leave (Note 5)	156,061	306,280	462,341	1,629
Notes and Loans Payable (Note 5)	93,352	1,073,501	1,166,853	185,091
Liabilities Payable From Restricted Assets (Note 5)		2,800,095	2,800,095	151,163
General Obligation Bonds Payable (Note 5, 6)	2,890,231	2,545,639	5,435,870	
Revenue Bonds Payable (Note 5, 6)	735,022	8,013,857	8,748,879	176,333
Assets Held for Others (Note 5)		407,245	407,245	
Net Pension Obligation (Note 5)	230,241		230,241	
Other Non-Current Liabilities (Note 5)	1,954	51,339	53,293	31,035
Total Non-Current Liabilities	4,353,439	15,259,831	19,613,270	545,253
Total Liabilities	18,352,364	20,006,315	38,358,679	737,925
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	47,321,790	5,141,823	52,463,613	20,037
Restricted for:				
Education	624,365	1,525,853	2,150,218	94,955
Highway Construction	671,873		671,873	
Debt Service	256,945	142,997	399,942	
Capital Projects	106,960	235,958	342,918	508
Veteran Land Board Housing Programs		607,845	607,845	
Funds Held as Permanent Investments:				
Nonexpendable	17,273,791	11,042,971	28,316,762	
Expendable		390,922	390,922	
Other	1,155,026	467,124	1,622,150	229
Unrestricted	2,065,296	5,840,918	7,906,214	2,571
Total Net Assets	$ 69,476,046	$ 25,396,411	$ 94,872,457	$ 118,300

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Statement of Activities
For the Fiscal Year Ended August 31, 2002
(Amount in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 1,947,049	$ 1,378,004	$ 518,749	$
Education	15,831,226	236,776	1,553,213	
Employee Benefits	14,757	383	17	
Teacher Retirement Benefits	1,201,886			
Health and Human Services	22,817,118	710,167	14,917,446	14
Public Safety and Corrections	4,170,817	144,120	324,457	
Transportation	3,576,274	988,612	111,945	2,191,407
Natural Resources and Recreational Services	736,111	453,990	133,510	49
Regulatory	273,023	63,986	4,495	
Indirect Interest on Long-Term Debt	403,784			
Total Governmental Activities	50,972,045	3,976,038	17,563,832	2,191,470
Business-Type Activities:				
Colleges and Universities	12,195,316	4,884,301	2,114,732	1,346
Texas Water Development Board Funds	149,767	2,377	238,325	
Veterans Land Board Loan Program Funds	136,556	17,236	128,527	
Texas Department of Transportation Turnpike Authority	13,011		5,148	50,584
Other Business-Type Activities	5,317,618	4,404,550	812,565	
Total Business-Type Activities	17,812,268	9,308,464	3,299,297	51,930
Total Primary Government	$ 68,784,313	$ 13,284,502	$ 20,863,129	$ 2,243,400
COMPONENT UNITS				
Component Units	$ 410,806	$ 199,706	$ 192,662	$
Total Component Units	$ 410,806	$ 199,706	$ 192,662	$ 0

GENERAL REVENUES
Taxes:
Sales and Use
Motor Vehicle & Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Capital Contributions
Other General Revenues
Contributions to Permanent and Term Endowments
Extraordinary Items (Note 23)
Transfers--Internal Activities (Note 12)
Total General Revenues and Transfers
Change in Net Assets
Net Assets, September 1, 2001
Net Assets, August 31, 2002

The accompanying notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (50,296)	$	$ (50,296)	$
(14,041,237)		(14,041,237)	
(14,357)		(14,357)	
(1,201,886)		(1,201,886)	
(7,189,491)		(7,189,491)	
(3,702,240)		(3,702,240)	
(284,310)		(284,310)	
(148,562)		(148,562)	
(204,542)		(204,542)	
(403,784)		(403,784)	
(27,240,705)	0	(27,240,705)	0
	(5,194,937)	(5,194,937)	
	90,935	90,935	
	9,207	9,207	
	42,721	42,721	
	(100,503)	(100,503)	
0	(5,152,577)	(5,152,577)	0
(27,240,705)	(5,152,577)	(32,393,282)	0
			(18,438)
0	0	0	(18,438)
14,249,422		14,249,422	
2,891,742		2,891,742	
2,687,798		2,687,798	
1,999,005		1,999,005	
640,615		640,615	
973,279		973,279	
536,464		536,464	
1,454,357		1,454,357	
383,608	108,831	492,439	7,524
512,579	2,579	515,158	
	750	750	648
	112,088	112,088	2,500
618,981	301,020	920,001	29,105
	101,473	101,473	
	603,679	603,679	
(3,171,399)	3,171,399		
23,776,451	4,401,819	28,178,270	39,777
(3,464,254)	(750,758)	(4,215,012)	21,339
72,940,300	26,147,169	99,087,469	96,961
$ 69,476,046	$ 25,396,411	$ 94,872,457	$ 118,300

State of Texas
Balance Sheet – Governmental Funds
August 31, 2002 (Amounts in Thousands)

	General Revenue	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents (Note 3)	$ 8,200,767	$ 698,403	$ 339,830	$ 1,532,697	$10,771,697
Securities Lending Collateral (Note 3)			2,235,393		2,235,393
Investments (Note 3)	175,588		195,951	127,499	499,038
Restricted:					
Cash and Cash Equivalents (Note 3)	4,486			1,443	5,929
Loans and Contracts	413				413
Receivables:					
Taxes	2,092,369				2,092,369
Federal	1,039,548	270,933		1,074	1,311,555
Other Intergovernmental	239,031	124,182			363,213
Accounts	108,674	14,653	112,909	2,424	238,660
Interest and Dividends	5,225	2,709		180,932	188,866
Other (Note 1)	43,710				43,710
Due From Other Funds (Note 12)	80,484	185,871		189,238	455,593
Interfund Receivable (Note 12)	501				501
Inventories	156,083	67,680		1,419	225,182
Prepaid Items	4,244				4,244
Loans and Contracts	3,489	5,082	127	98,776	107,474
Other Current Assets	738			59	797
Total Current Assets	12,155,350	1,369,513	2,884,210	2,135,561	18,544,634
Non-Current Assets:					
Investments (Note 3)			16,706,252	764,260	17,470,512
Interfund Receivable (Note 12)	14,292				14,292
Restricted:					
Receivables	87			126,222	126,309
Loans and Contracts	57,676			532,431	590,107
Other Assets	11				11
Loans and Contracts	124,777	225,809	1,482	116,046	468,114
Other Non-Current Assets		14,031		8,015	22,046
Total Non-Current Assets	196,843	239,840	16,707,734	1,546,974	18,691,391
Total Assets	$12,352,193	$ 1,609,353	$19,591,944	$ 3,682,535	$37,236,025
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	$ 2,057,803	$ 427,153	$ 80,767	$ 93,174	$ 2,658,897
Payroll	378,662	79,371		12,256	470,289
Other Intergovernmental	208,826				208,826
Federal	4,849			167	5,016
Other	203,854	200,473		4,587	408,914
Deferred Revenues	1,724,391	225,239	787	64,672	2,015,089
Due To Other Funds (Note 12)	712,703	5,611	1,206	146,961	866,481
Due To Component Units (Note 12)	54			11	65
Interfund Payable (Note 12)	42	182		13	237
Tax and Revenue Anticipation Notes (Note 4)	5,822,475				5,822,475
Claims and Judgments (Note 5)	3,677				3,677
Obligations/Reverse Repurchase Agreements	173,989				173,989
Obligations/ Securities Lending			2,235,393		2,235,393
Total Current Liabilities	11,291,325	938,029	2,318,153	321,841	14,869,348
Non-Current Liabilities:					
Interfund Payable (Note 12)				5,794	5,794
Other Non-Current Liabilities	125			1,829	1,954
Total Non-Current Liabilities	125	0	0	7,623	7,748
Total Liabilities	11,291,450	938,029	2,318,153	329,464	14,877,096
Fund Balances/(Deficits):					
Reserved (Note 13)	1,430,095	475,399	17,273,791	1,437,530	20,616,815
Unreserved (Note 13):					
General Revenue	(369,352)				(369,352)
Special Revenue		195,925		1,473,359	1,669,284
Capital Projects				13,036	13,036
Permanent				429,146	429,146
Total Fund Balances	1,060,743	671,324	17,273,791	3,353,071	22,358,929
Total Liabilities and Fund Balances	$12,352,193	$ 1,609,353	$19,591,944	$ 3,682,535	$37,236,025

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets As of August 31, 2002

(Amounts in Thousands)

Total Fund Balance - Governmental Funds		$22,358,929
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets less accumulated depreciation are included in the Statement of Net Assets (Note 2):		
Capital Assets - Non-Depreciable	$40,551,420	
Capital Assets - Depreciable	19,875,853	
Accumulated Depreciation	(9,957,724)	
		50,469,549
Certain pension funds have been funded in excess of the annual required contributions, creating a year-end asset. The asset is not a current available resource and is not reported in the funds. (Note 9)		143,381
Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore are deferred in the funds.		1,461,186
Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets. (Note 5)		
Claims and Judgments	(198,008)	
Capital Lease Obligations	(51,874)	
Employees' Compensable Leave	(446,516)	
Notes and Loans Payable	(98,265)	
G. O. Bonds Payable	(3,080,731)	
Revenue Bonds Payable	(809,128)	
Net Pension Obligation	(230,241)	
		(4,914,763) *
* Current Portion = $563,278 and Non-Current Portion = $4,351,485		
Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets.		(61,638)
Prepaid items are included in the Statement of Net Assets.		69
Internal service funds are used by management to charge the costs of Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		19,333
Net Assets of Governmental Activities		$69,476,046

State of Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	General Revenue	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$25,093,271	$ 30,168	$	$	$25,123,439
Federal	17,963,457	2,311,322		32,568	20,307,347
Licenses, Fees & Permits	1,943,067	829,850		42,122	2,815,039
Interest and Other Investment Income (Loss)	350,338	20,792	(1,968,829)	782,671	(815,028)
Land Income	8,729	1,529	161,113	7,396	178,767
Settlement of Claims	506,121	5,544	134	781	512,580
Sales of Goods and Services	794,147	163,405	123	4,234	961,909
Other	1,251,982	5,365		15,420	1,272,767
Total Revenues	47,911,112	3,367,975	(1,807,459)	885,192	50,356,820
EXPENDITURES					
Current:					
General Government	1,759,127	11,281	300	75,316	1,846,024
Education	14,457,248			1,282,195	15,739,443
Employee Benefits	775			13,966	14,741
Health and Human Services	22,378,229			15,928	22,394,157
Public Safety and Corrections	3,572,858	361,892		102,116	4,036,866
Transportation	29,760	3,064,480		2,330	3,096,570
Natural Resources & Recreational Services	671,047			41,728	712,775
Regulatory Agencies	262,895			6,957	269,852
Capital Outlay	130,140	2,027,836		116,282	2,274,258
Debt Service:					
Principal	5,353			281,002	286,355
Interest	151,785			187,604	339,389
Total Expenditures	43,419,217	5,465,489	300	2,125,424	51,010,430
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,491,895	(2,097,514)	(1,807,759)	(1,240,232)	(653,610)
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	1,200,403	2,086,004		2,806,884	6,093,291
Transfer Out (Note 12)	(9,809,238)	(10,638)	(10,213)	(1,039,836)	(10,869,925)
Bonds and Notes Issued				231,926	231,926
Bond Proceeds for Advance Refunding				8,124	8,124
Payments to Escrow for Advance Refunding				(8,124)	(8,124)
Sale of Capital Assets	10,066	69,449		15	79,530
Increase in Obligations Under Capital Leases	371				371
Total Other Financing Sources (Uses)	(8,598,398)	2,144,815	(10,213)	1,998,989	(4,464,807)
Change in Fund Balances	(4,106,503)	47,301	(1,817,972)	758,757	(5,118,417)
Fund Balances, September 1, 2001	3,393,354	441,985	19,092,079	2,842,327	25,769,745
Restatements (Note 14)	1,773,892	182,038	(316)	(248,013)	1,707,601
Fund Balances, September 1, 2001, as Restated	5,167,246	624,023	19,091,763	2,594,314	27,477,346
Fund Balances, August 31, 2002	$ 1,060,743	$ 671,324	$17,273,791	$ 3,353,071	$22,358,929

The accompany notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended August 31, 2002
(Amounts in Thousands)

Net Change in Fund Balance		$(5,118,417)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$ 2,274,258	
Depreciation Expense	(746,082)	
		1,528,176
The effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.		(79,468)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		306,942
Internal service funds are used by management to charge the costs of Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. The adjustments for internal service funds "closes" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.		1,032
The issuance of long-term debt and increase in obligations under capital leases provides current financial resources to governmental funds, while the repayment of the principal of long term debt and capital leases consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.		
Bond and Note Proceeds	(240,050)	
Increase in Obligations under Capital Lease	(371)	
Repayment of Bond Principal	289,126	
Repayment of Capital Lease	5,353	
		54,058
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		(156,577)
Transfers out to fiduciary funds from governemental funds are converted to expenses on the Statement of Activities.		
Change in Transfers	1,605,235	
Increase in Expenses	(1,605,235)	
		0
Change in Net Assets of Governmental Activities		$(3,464,254)

State of Texas
Statement of Net Assets
Proprietary Funds
August 31, 2002 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Funds*
ASSETS							
Current Assets:							
Cash and Cash Equivalents (Note 3)	$ 2,128,276	$ 227,985	$	$	$ 92,518	$ 2,448,779	$ 10,022
Securities Lending Collateral (Note 3)	457,934		41,558		134,617	634,109	18,908
Short Term Investments (Note 3)	251,931	524,741			8,334	785,006	50,034
Restricted:							
Cash and Cash Equivalents (Note 3)	489,466		112,419	283,299	619,402	1,504,586	
Short Term Investments (Note 3)	266,094		192,667	953,626	235,538	1,647,925	
Loans and Contracts	2,427		41,317		7,809	51,553	
Receivables:							
Federal	216,285				21,379	237,664	
Other Intergovernmental	22,681					22,681	
Accounts	324,482		3,238		185,885	513,605	84,660
Interest and Dividends	119,780	39,802	21,562	125	16,229	197,498	75
Gifts	72,671					72,671	
Other	845,160					845,160	
Due From Other Funds (Note 12)	443,550			4,600	28,528	476,678	
Interfund Receivable (Note 12)	40				2	42	
Inventories	90,822		44		13,638	104,504	
Prepaid Items	62,897				302	63,199	
Loans and Contracts	71,212	97,232			116,644	285,088	
Other Current Assets	117,641				801	118,442	
Total Current Assets	5,983,349	889,760	412,805	1,241,650	1,481,626	10,009,190	163,699
Non-Current Assets:							
Restricted:							
Cash and Cash Equivalents (Note 3)	33,814					33,814	
Short Term Investments (Note 3)	25,379				10,090	35,469	
Investments (Note 3)	12,276,249		457,267	1,080,364	3,232,520	17,046,400	
Receivables	42,374				403,864	446,238	
Loans and Contracts	107,411		1,733,960		601,335	2,442,706	
Other	7,453		7,704			15,157	
Loans and Contracts	22,754	2,915,756			4,736	2,943,246	
Investments (Note 3)	3,597,748					3,597,748	236,190
Gifts	135,877					135,877	
Capital Assets:							
Non-Depreciable	3,366,497		741	114,502	696	3,482,436	
Depreciable	12,689,514		42,221		16,469	12,748,204	
Accumulated Depreciation	(7,194,040)		(2,975)		(9,850)	(7,206,865)	
Assets Held in Trust	64,971				8,865	73,836	
Other Non-Current Assets	11,034	646		59,900	12,908	84,488	
Total Non-Current Assets	25,187,035	2,916,402	2,238,918	1,254,766	4,281,633	35,878,754	236,190
Total Assets	31,170,384	3,806,162	2,651,723	2,496,416	5,763,259	45,887,944	399,889

Concluded on the following page

State of Texas
Statement of Net Assets
Proprietary Funds (concluded)
August 31, 2002 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Funds*
LIABILITIES							
Current Liabilities:							
Payables:							
Accounts	$ 587,399	$ 11	$ 14,566	$ 5,943	$ 123,056	$ 730,975	$359,690
Payroll	126,110				3,134	129,244	
Other Intergovernmental	2,504					2,504	
Federal	28,619				195	28,814	
Liabilities Payable from Restricted Assets (Note 5)	579,388			3,168	309,492	892,048	
Due to Other Funds (Note 12)	10,071	383	332		16,620	27,406	1,550
Interfund Payable (Note 12)	14				292	306	
Deferred Revenue	1,082,158	28,776		186,600	37,142	1,334,676	409
Obligations/Securities Lending	457,934		41,558		134,617	634,109	18,908
Employees' Compensable Leave (Note 5)	44,971				2,573	47,544	
Claims and Judgments (Note 5)	3,568					3,568	
Capital Lease Obligations (Note 5, 7)	1,592				122	1,714	
Notes and Loans Payable (Note 5, 6)	512,233				21,100	533,333	
G. O. Bonds Payable (Note 5, 6)	10,195	28,495	86,265			124,955	
Revenue Bonds Payable (Note 5, 6)	205,155	34,610			10,135	249,900	
Funds Held for Others	123,492					123,492	
Other Current Liabilities	282,311	14,060	26,527	150	35,568	358,616	
Total Current Liabilities	4,057,714	106,335	169,248	195,861	694,046	5,223,204	380,557
Non-Current Liabilities:							
Interfund Payable (Note 12)	8,498					8,498	
Employees' Compensable Leave (Note 5)	305,193				1,087	306,280	
Claims and Judgments (Note 5)	44,003					44,003	
Capital Lease Obligations (Note 5, 7)	16,901				971	17,872	
Notes and Loans Payable (Note 5, 6)	105,451			968,050		1,073,501	
G. O. Bonds Payable (Note 5, 6)	31,350	851,085	1,663,204			2,545,639	
Revenue Bonds Payable (Note 5, 6)	3,477,858	1,458,415	191,134	1,289,785	1,596,665	8,013,857	
Liabilities Payable From Restricted Assets (Note 5)					2,800,095	2,800,095	
Assets Held for Others	295,116				112,129	407,245	
Other Non-Current Liabilities	51,339					51,339	
Total Non-Current Liabilities	4,335,709	2,309,500	1,854,338	2,257,835	4,510,947	15,268,329	0
Total Liabilities	8,393,423	2,415,835	2,023,586	2,453,696	5,204,993	20,491,533	380,557
NET ASSETS							
Invested in Capital Assets, Net of Related Debt	5,067,363		20,292	50,583	3,585	5,141,823	
Restricted for:							
Education	1,525,853					1,525,853	
Veterans Land Board Housing Programs			607,845			607,845	
Debt Retirement	16,056	33,408			93,533	142,997	
Capital Projects	235,861					235,861	
Funds Held as Permanent Investments:							
Nonexpendable	11,042,971					11,042,971	
Expendable	390,922					390,922	
Other					467,124	467,124	
Unrestricted	4,497,935	1,356,919		(7,863)	(5,976)	5,841,015	19,333
Total Net Assets	$22,776,961	$1,390,327	$ 628,137	$ 42,720	$ 558,266	$25,396,411	$ 19,333

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Funds*
OPERATING REVENUES							
Lottery Collections	$	$	$	$	$2,966,782	$ 2,966,782	$
Tuition Revenue	172,622					172,622	
Tuition Revenue - Pledged	1,602,726					1,602,726	
Discounts and Allowances	(307,392)					(307,392)	
Hospital Revenue - Pledged	2,758,797					2,758,797	
Discounts and Allowances	(1,232,809)					(1,232,809)	
Professional Fees	2,039,540					2,039,540	
Professional Fees - Pledged	9,741					9,741	
Discounts and Allowances	(1,263,939)					(1,263,939)	
Auxiliary Enterprises	41,623					41,623	
Auxiliary Enterprises - Pledged	594,304				67,115	661,419	
Discounts and Allowances	(18,384)					(18,384)	
Unemployment Taxes					1,129,885	1,129,885	
Other Sales of Goods and Services	64,965				243,588	308,553	
Other Sales of Goods and Services - Pledged	306,346		17,358			323,704	
Discounts and Allowances	(38,235)		(293)			(38,528)	
Interest and Investment Income	43,221	56,482	123,941		127,582	351,226	
Interest and Investment Income - Pledged		110,803	1,316			112,119	
Federal Revenue	1,541,830				439,265	1,981,095	
State Grant Revenue	252,468					252,468	
Premium Revenue							1,489,406
Other Operating Grant Revenue	639,453					639,453	
Other Revenues	139,284	2,377	173		31,728	173,562	648
Other Revenue - Pledged	52,073					52,073	
Total Operating Revenues	7,398,234	169,662	142,495	0	5,005,945	12,716,336	1,490,054
OPERATING EXPENSES							
Cost of Goods Sold	117,966				46,349	164,315	
Salaries and Wages	5,926,380	5,516			39,339	5,971,235	4,866
Payroll Related Costs	1,381,708	854			10,150	1,392,712	1,074
Professional Fees and Services	522,054	522	16,970		11,363	550,909	1,189
Travel	154,249	77			664	154,990	55
Materials and Supplies	1,020,939	137	555		7,592	1,029,223	660
Communication and Utilities	383,231	45			962	384,238	324
Repairs and Maintenance	219,206	20			1,451	220,677	510
Rentals and Leases	112,383	43			8,089	120,515	426
Printing and Reproduction	63,424	24	11		15,306	78,765	41
Depreciation and Amortization	474,028		1,879		1,938	477,845	
Unemployment Benefit Payments					2,712,360	2,712,360	
Bad Debt Expense	26,963	27	293		566	27,849	
Interest Expense	11,192	134,092	110,950		94,854	351,088	
Scholarships	471,171					471,171	
Lottery Prize Payments					1,867,887	1,867,887	
Employee/Participant Benefit Payments					347,713	347,713	1,493,565
Claims and Judgments	13,700					13,700	
Other Expenses	836,421	1,604	2,641		132,755	973,421	285
Total Operating Expenses	11,735,015	142,961	133,299	0	5,299,338	17,310,613	1,502,995
Operating Income (Loss)	(4,336,781)	26,701	9,196	0	(293,393)	(4,594,277)	(12,941)

Concluded on the following page

State of Texas
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds (concluded)
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Funds*
NONOPERATING REVENUES (EXPENSES)							
Federal Revenue	$ 33,584	$ 71,040	$ 64	$	$	$ 104,688	$
Gifts	311,642					311,642	
Gifts - Pledged	5,106					5,106	
Land Income	3,987					3,987	
Interest and Investment Income (Loss)	(668,194)		26,870	3,577	62,946	(574,801)	13,933
Interest and Investment - Pledged	166,444		3,205	1,570		171,219	
Loan Premium and Fees on Securities Lending					1,834	1,834	229
Investing Activities Expense	(4,371)					(4,371)	
Interest Expense	(198,327)		(1,790)	(13,011)		(213,128)	
Borrower Rebates and Agent Fees	(129)		(1,154)		(1,557)	(2,840)	(186)
Gain (Loss) on Sale of Capital Assets	(22,909)				751	(22,158)	
Claims and Judgments	902				4	906	(3)
Other Benefit Payments	(88,786)					(88,786)	
Other Revenues	287,285				70	287,355	
Other Expenses	(170,583)	(6,806)	(313)			(177,702)	
Total Nonoperating Revenues (Expenses)	(344,349)	64,234	26,882	(7,864)	64,048	(197,049)	13,973
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	(4,681,130)	90,935	36,078	(7,864)	(229,345)	(4,791,326)	1,032
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS							
Capital Contributions	113,433			50,584		164,017	
Contributions to Endowments	101,473					101,473	
Extraordinary Items	(11,035)	18,268			596,446	603,679	
Transfer In (Note12)	4,351,170	4,098			89,984	4,445,252	
Transfer Out (Note12)	(321,842)	(3,191)	(16,586)		(932,234)	(1,273,853)	
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	4,233,199	19,175	(16,586)	50,584	(245,804)	4,040,568	0
Change in Net Assets	(447,931)	110,110	19,492	42,720	(475,149)	(750,758)	1,032
Net Assets, September 1, 2001 (Note14)	31,498,979	1,272,559	2,512,353		958,189	36,242,080	18,308
Restatements (Note14)	(8,274,087)	7,658	(1,903,708)		75,226	(10,094,911)	(7)
Net Assets, September 1, 2001, as Restated (Note14)	23,224,892	1,280,217	608,645	0	1,033,415	26,147,169	18,301
Net Assets, August 31, 2002	$22,776,961	$1,390,327	$ 628,137	$42,720	$ 558,266	$25,396,411	$ 19,333

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Funds*
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers	$ 4,545,542	$ 2,377	$ 14,763	$	$4,292,572	$ 8,855,254	$ 374,825
Proceeds from Loan Programs	1,723,004		383,456		57,262	2,163,722	
Proceeds from Other Revenues	1,602,469		6,322		1,040,117	2,648,908	1,101,601
Payments to Suppliers for Goods and Services	(3,704,526)	(1,050)	(15,706)		(365,834)	(4,087,116)	(3,491)
Payments to Employees	(7,251,085)	(6,079)			(48,613)	(7,305,777)	(5,867)
Payments for Loans Provided	(119,228)		(303,394)		(120,229)	(542,851)	
Payments for Other Expenses	(384,854)		(13,101)		(4,419,491)	(4,817,446)	(1,442,482)
Net Cash Provided by Operating Activities	(3,588,678)	(4,752)	72,340	0	435,784	(3,085,306)	24,586
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Proceeds from Debt Issuance	274	128,121	155,785		426,724	710,904	
Proceeds from Transfers from Other Funds	3,934,503	161,569	32,149		4,055,317	8,183,538	
Proceeds from Grant Receipts	27,863					27,863	
Proceeds from Loan Programs							
Proceeds from Other Financing Activities	384,749	71,040			58,841	514,630	
Proceeds from Contributed Capital	315,216					315,216	
Payments of Principal on Debt Issuance	(4,357)	(60,245)	(183,177)		(254,895)	(502,674)	
Payments of Interest	(7,548)	(124,467)			(93,770)	(225,785)	
Payments of Other Costs of Debt Issuance	(45)	(1,068)			(3,747)	(4,860)	
Payments for Transfers to Other Funds	(30,768)	(140,871)	(49,074)		(4,818,555)	(5,039,268)	
Payments for Other Uses	(440,698)	(6,860)			(154,307)	(601,865)	
Net Cash Provided by Noncapital Financing Activities	4,179,189	27,219	(44,317)	0	(784,392)	3,377,699	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES							
Proceeds from Sale of Fixed Assets	1,318				4	1,322	
Proceeds from Debt Issuance	1,025,424		18,997	2,204,951		3,249,372	
Proceeds from Other Financing Activities	8,180		65		5	8,250	
Proceeds from Capital Contributions	53,622			186,600		240,222	
Proceeds of Advances from Other Funds	66,185					66,185	
Payments for Additions to Fixed Assets	(1,420,298)		(4)	(65,000)	(3,749)	(1,489,051)	
Payments of Principal on Debt Issuance	(317,413)					(317,413)	
Payments of Interest on Debt Issuance	(165,189)		(21,406)			(186,595)	
Payments on Other Costs of Debt Issuance	(42,491)			(1,274)		(43,765)	
Net Cash Provided by Capital and Related Financing Activities	(790,662)	0	(2,348)	2,325,277	(3,740)	1,528,527	0
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from Sale of Investments	19,209,194	18,791	1,172,631	214,726	760,172	21,375,514	742,600
Proceeds from Interest and Investment Income	278,087	24,377	17,411		127,832	447,707	1,372
Proceeds from Principal Payments on Loans	49	139,540				139,589	
Payments to Acquire Investments	(18,870,807)	(150,066)	(1,209,905)	(2,256,704)	(919,381)	(23,406,863)	(785,200)
Net Cash Provided by Investing Activities	616,523	32,642	(19,863)	(2,041,978)	(31,377)	(1,444,053)	(41,228)
Net Increase in Cash and Cash Equivalents	416,372	55,109	5,812	283,299	(383,725)	376,867	(16,642)
Cash and Cash Equivalents, September 1, 2001	2,249,794	576,834	106,607		1,095,645	4,028,880	26,664
Restatements	(14,610)	(403,958)				(418,568)	
Cash and Cash Equivalents, September 1, 2001 Restated	2,235,184	172,876	106,607	0	1,095,645	3,610,312	26,664
Cash and Cash Equivalents, August 31, 2002	$ 2,651,556	$227,985	$ 112,419	$ 283,299	$ 711,920	$ 3,987,179	$ 10,022

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds						
	Colleges and Universities	Texas Water Development Board Funds	Veterans Land Board Loan Program Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Funds*
RECONCILLIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
Operating Income (Loss)	$(4,336,781)	$ 26,701	$ 9,196	$	$(293,393)	$(4,594,277)	$(12,941)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Amortization and Depreciation	474,028		1,879		1,938	477,845	
Discounts and Allowances	26,963	27	293		566	27,849	
Operating Income and Cash Flow Categories Classification Differences	209,439	(30,689)	27,392		602,045	808,187	
Changes in Assets and Liabilities:							
(Increase) Decrease in Receivables	(220,517)	(621)	(11,600)		(145,491)	(378,229)	(16,155)
(Increase) Decrease in Due From Other Funds	(930)					(930)	3,896
(Increase) Decrease in Inventories	(405)				988	583	
(Increase) Decrease in Loans and Contracts	(3,434)				(71,031)	(74,465)	
(Increase) Decrease in Other Assets	189,711	(1)	(39,969)		(482)	149,259	
(Increase) Decrease in Prepaid Expenses	(10,847)				327,026	316,179	
Increase (Decrease) in Payables	52,115	(551)	33,111		31,812	116,487	49,225
Increase (Decrease) in Due to Other Funds	(3,508)	382			1,684	(1,442)	431
Increase (Decrease) in Deferred Revenue	269,743				(4,153)	265,590	130
Increase (Decrease) in Other Liabilities	(234,255)		52,038		(15,725)	(197,942)	
Total Adjustments	748,103	(31,453)	63,144	0	729,177	1,508,971	37,527
Net Cash Provided by Operating Activities	$(3,588,678)	$ (4,752)	$72,340	$ 0	$ 435,784	$(3,085,306)	$ 24,586
NON CASH TRANSACTIONS							
Net Change in Fair Value of Investments	$ 558,078	$ 443	$ (751)	$ (1,854)	$ 33,197	$ 589,113	
Donation of Capital Assets	$ (835)					$ (835)	
Other	$ 623,689			$(13,011)		$ 610,678	$ (1,271)

The accompanying notes to the financial statements are an integral part of this statement.

* Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Fiduciary Net Assets
August 31, 2002 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds	Totals
ASSETS					
Cash and Cash Equivalents (Note 3)	$ 904,604	$	$ 164,101	$ 579,062	$ 1,647,767
Securities Lending Collateral	2,166,167				2,166,167
Investments	89,571,535	10,341,474	1,854,965	1,223,466	102,991,440
Receivables:					
Other Intergovernmental			144	627	771
Interest and Dividends	311,859	21,824	6,190	35,815	375,688
Taxes				17	17
Accounts				54,638	54,638
Other	1,344,432		20,728		1,365,160
Due From Other Funds (Note 12)	4,875		6,850	2,271	13,996
Interfund Receivable (Note 12)	1				1
Properties, at Cost, net of Accumulated					
Depreciation	40,549		287		40,836
Other Assets			75,283	1,590,179	1,665,462
Total Assets	94,344,022	10,363,298	2,128,548	3,486,075	110,321,943
LIABILITIES					
Payables:					
Accounts	3,024,429	109,338	12,361	8,390	3,154,518
Other Intergovernmental				502,000	502,000
Payroll	1,500		78,724		80,224
Deferred Revenue	29,382		2,068		31,450
Due to Other Funds (Note 12)	41,908		6,378	2,544	50,830
Interfund Payable (Note 12)	1				1
Employees' Compensable Leave	3,602				3,602
Capital Lease Obligations	12				12
Obligations/Securities Lending	2,166,167				2,166,167
Funds Held for Others			77,763	2,973,141	3,050,904
Total Liabilities	5,267,001	109,338	177,294	3,486,075	9,039,708
NET ASSETS					
Held in Trust for:					
Pension Benefits and Other	89,077,021				89,077,021
Employees' Post Employment Healthcare Benefits			96,802		96,802
Individuals, Organizations, and Other Governments			1,854,452		1,854,452
Pool Participants		10,253,960			10,253,960
Total Net Assets	$ 89,077,021	$ 10,253,960	$ 1,951,254	$ 0	$ 101,282,235

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private-Purpose Trust Funds	Totals
ADDITIONS				
Contributions:				
Member Contributions	$ 1,938,171	$	$	$ 1,938,171
State Contributions	309,295			309,295
Transfers In of Contributions (Note 12)	1,201,885			1,201,885
Other Contributions	157,786			157,786
Total Contributions	3,607,137	0	0	3,607,137
Investment Income:				
From Investing Activities:				
Net (Depreciation) in Fair Value of Investments	(10,388,833)		(165,088)	(10,553,921)
Interest and Investment Income	2,911,791	281,937	55,983	3,249,711
Total Investing Income (Loss)	(7,477,042)	281,937	(109,105)	(7,304,210)
Less Investing Activities Expense	31,970	6,802	3,890	42,662
Net Income (Loss) from Investing Activities	(7,509,012)	275,135	(112,995)	(7,346,872)
From Securities Lending Activities:				
Securities Lending Income	266,923			266,923
Less Securities Lending Expense:				
Borrower Rebates	203,184			203,184
Management Fees	11,915			11,915
Net Income from Securities Lending	51,824	0	0	51,824
Total Net Investment Income (Loss)	(7,457,188)	275,135	(112,995)	(7,295,048)
Capital Share and Individual Account Transactions:				
Net (Decrease) in Participant Investments		(1,318,808)		(1,318,808)
Other Additions:				
Federal Revenue			1,183	1,183
Contributions to Employee Benefit Funds			191,284	191,284
Settlement of Claims			510,921	510,921
Other Revenue	263		261,636	261,899
Transfer In (Note 12)	49,685		413,536	463,221
Total Other Additions	49,948	0	1,378,560	1,428,508
Total Additions	(3,800,103)	(1,043,673)	1,265,565	(3,578,211)
DEDUCTIONS				
Benefits	5,355,660		468,835	5,824,495
Refunds of Contributions	256,639			256,639
Transfer Out (Note 12)	28,057		31,814	59,871
Intergovernmental Payments			81,427	81,427
Administrative Expenses	33,849		179,952	213,801
Total Deductions	5,674,205	0	762,028	6,436,233
INCREASE (DECREASE) IN NET ASSETS	(9,474,308)	(1,043,673)	503,537	(10,014,444)
NET ASSETS				
Net Assets, September 1, 2001 (Note 14)	98,553,164	11,449,480	1,448,639	111,451,283
Restatements (Note 14)	(1,835)	(151,847)	(922)	(154,604)
Net Assets, September 1, 2001 as Restated (Note 14)	98,551,329	11,297,633	1,447,717	111,296,679
Net Assets, August 31, 2002	$ 89,077,021	$ 10,253,960	$ 1,951,254	$101,282,235

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Index for Notes to Financial Statements
For the Fiscal Year Ended August 31, 2002

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Note 1
Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying basic financial statements of the State of Texas have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The Governmental Accounting Standards Board has issued Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, Statement No. 35 *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*, Statement No. 37 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and Statement No. 38 *Certain Financial Statement Note Disclosures*. These new accounting and reporting standards impact the state's revenue and expenditure recognition and assets, liabilities and fund equity reporting. The new standards also require reformatting of the financial statements and restating of beginning balances. The state implemented statements No. 34, 35, 37 and paragraphs 6 through 11 of Statement No. 38. The state also early implemented paragraphs 12, 14, and 15 of Statement No. 38.

Financial reporting for the state is based on all GASB pronouncements, as well as FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the State of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities, and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general administrative services, and employee benefits.

The reporting entity for the state is in accordance with the criteria established by the Governmental Accounting Standards Board. A listing and brief summary of the component units and their relationship to the State of Texas is discussed in Note 19. These financial statements present the State of Texas (the primary government) and its component units.

The state's various river authorities, public school districts, and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide and fund financial statements. While the previous model emphasized fund types (the total of all funds of a particular type), the new reporting model focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), as well as its discretely presented component units. Certain general government administrative overhead expenses have been allocated as direct expenses to the various functions of the state.

In the government-wide statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates non-current investments, capital assets as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net cost per functional category (public safety, transportation, etc.) which are otherwise supported by general government revenues (sales, use, franchise taxes etc.). In the statement of activities, program revenues are netted within program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function, or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include (a) charges for services and (b) operating and capital grants and contributions. Charges for services include special assessments, and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The state's fiduciary funds are presented in the fund financial statements by type (pension, investment trust, private-purpose, and agency). Since the assets are held for the benefit of others and cannot be used to address activities or obligations of the government, the funds are not incorporated into the government-wide statements.

Fund Financial Statements

The fund financial statements are similar to the financial statements presented in the previous model. The new emphasis is on the major funds in the fund financial statements. Nonmajor funds are summarized into single columns.

In governmental funds and proprietary funds, assets and liabilities are presented in a classified format, which distinguishes between all current and long-term assets and liabilities. In fiduciary funds, assets and liabilities are presented in order of relative liquidity. Current assets in the governmental funds are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables, and short-term investments. All other assets are considered non-current. Current liabilities in the governmental funds are obligations expected to be paid within the fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements; (b) the source and use of financial resources; and (c) how the state's actual experience conforms to the budget. Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which explains the adjustment required to restate the fund-based financial statements for the government-wide governmental activities column.

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually, and nonmajor funds in the aggregate for governmental and proprietary funds. The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Capital Projects Funds account for financial resources used for the acquisition, repair, renovation, or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below:

The **General Revenue Fund** is the principal operating fund used to account for most of the state's general activities. Included are transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreational services, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, and monitoring of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are deposited to the credit of the Available School Fund.

Proprietary Fund Types

Proprietary Funds focus on determining operating income, changes in net assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are Enterprise Funds and an Internal Service Fund.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity;
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges;
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The **Employees Life, Accident, and Health Insurance Benefits Fund**, presented on the proprietary fund statements, is used to account for the services provided by the Group Insurance program to other agencies of the reporting entity.

The state's major Enterprise Funds are listed below:

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University, and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements, and individually in the Combining Statement-Colleges and Universities in the Supplemental Information section of this report.

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds, and water pollution control revolving funds, which issue bonds to provide assistance to political subdivisions.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate, and service loans for land, housing, and home improvement for those qualifying veterans.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "2002 Project") of the Central Texas Turnpike System.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used. Pension trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9.

Investment Trust Funds report the external portions of investment pools reported by the sponsoring government.

Private-Purpose Trust Funds report all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Agency Funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, cash and cash equivalents, investment, and remittance of fiduciary resources to individuals, private organizations, or other governments. The state's deferred compensation plan, established under Internal Revenue Code (IRC) Section 457, Deferred Compensation Plans of State and Local Governmental Employers, is accounted for under the requirements of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* as amended by GASB Statement No. 34. This fund is reported as a pension trust fund.

Component Units

Governmental Component Units are used to account for discretely presented component units that follow governmental fund accounting principles. Proprietary Component Units are used to account for the discretely presented component units which follow proprietary fund measurement focus and accounting principles.

The Texas Treasury Safekeeping Trust Company is a new blended component unit. The Texas Workers' Compensation Insurance Fund is no longer a discretely presented component unit; it became Texas Mutual Insurance Company, a related organization. Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources, and obligations of the reporting government, both current and noncurrent, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations

of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the full accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures. Proprietary fund types, pension trust funds, investment trust funds, private-purpose trust funds, and agency funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

The State Constitution requires the State Comptroller to submit a Biennial Revenue Estimate to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Constitution also requires the State Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The state's budget is prepared on a cash basis. The State Constitution limits appropriation bills to two years. The Legislative Budget Board is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue not dedicated by the Constitution that is available for the next biennium. If the legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and Legislative Budget Board (LBB) initiate the process by submitting separate budget requests to the Legislature. At final passage of the appropriations bill by the Legislature, it is sent to the State Comptroller for certification. If the State Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line-item of appropriation. Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The State Comptroller is responsible for controlling, accounting, and reporting expenditures in accordance with the expenditure budgets.

The level of legal control for the budget is established at the Strategy (line item) level by agency. For example, "Highway Patrol", "Driver Licenses & Records", and "Vehicle Inspection" are three of the strategies for the Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 25%, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the "Appropriation Summary Report" available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line-

item (Strategy) for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves. Supplemental (Emergency) Appropriations of $524,243 were approved during fiscal year 2002 to provide sufficient funding for several agencies. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

The Budgetary Comparison Schedule, in the Required Supplementary Information Other Than MD&A, presents the original budget, the final budget and the actual budget of the major governmental funds. A reconciliation for the General Fund and the State Highway Fund budgetary basis to GAAP basis is presented as Required Supplementary Information with explanations of the reconciling items.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in local banks, cash in the Treasury, and cash equivalents. Cash in local banks is primarily held by Special Revenue Funds, Enterprise Funds, Pension Trust Funds, and Proprietary Component Units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division - Comptroller's office. Interest earned is deposited in the General Revenue Fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both: (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. However, certain money market investments may be reported at amortized cost, provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities. The expendable portion of the Permanent School Fund earnings is assigned to the Available School Fund. The amount of interest allocated to the Available School Fund is $749.6 million. The nature and purpose of derivative transactions and the descriptions of exposure to credit risk, market risk, and legal risk can be found in Note 3.

Receivables and Payables

The major receivable for governmental activities and business-type activities are taxes and tuition, respectively. All receivables are shown net of uncollectable amounts.

Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances between governmental and business activities are reported in the government-wide financial statements as "internal balances."

Non-Current Interfund Receivables/Payables between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method.

The purchase method of accounting is no longer used to account for inventories of governmental fund types. The

consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Since the state has reported inventories when using the purchase method, this accounting change does not cause a restatement to beginning equity.

Prepaid items reflect payments for cost applicable to future accounting periods and are recorded in both government-wide and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds, and government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Detailed information of capital assets can be found in Note 2.

GASB Statement No. 34 allows an alternative (modified) approach which reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state's highway infrastructure has elected this option. The state has developed and implemented an asset management system that establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the Required Supplementary Information section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components: (a) the amount due in one year (current) and (b) the amount due in more than one year (non-current).

General long-term liabilities consist of the non-current portion of capital lease obligations, compensable leave, claims and judgments, and other non-current liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

Classifications of leave liabilities into current and non-current amounts mandates a new calculation methodology rather than an averaged rate multiplied by the total ending leave balance at year-end.

GASB Statement No. 16, "Accounting for Compensated Absences," establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the

employee if both the employee's rights to receive compensation are attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of 7 to 20 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 168 hours to 520 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act (FLSA) and state laws can be accumulated in lieu of immediate payment as compensatory leave (at 1.5 hours x overtime hours worked), for non-exempt, non-emergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and non-current liabilities for each employee since it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, the probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides the details for capital lease obligations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Net Assets

Invested in Capital Assets, Net of Related Debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fund Balance Reserve and Designated Fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets which, by their nature, are not available for expen-

diture. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents the disaggregating of fund balances.

Interfund Activity and Transactions – Government-Wide Financial Statement

GASB Statement No. 34 establishes a new classification system with new terms and definitions for interfund activity, and modifies requirements for reporting transfers.

Interfund Activity

As a general rule the effect of interfund activity has been eliminated from the government-wide statements with the exception of activities between governmental activities and business-type activities.

Interfund Balances

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year-end are limited and immaterial. Note 12 provides the details of interfund activities and transactions.

Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. For additional information, see Note 17.

Note 2
Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets" such as works of art, historical treasures, and professional, academic and research library books and materials are not depreciated. However, books and materials purchased but not used in a library are considered "exhaustible" assets. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows:

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land	$ 0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Construction in Progress	0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Other Assets		
(Leasehold Improvements and Livestock)	Various	0-22 years
Facilities and Other Improvements	100,000	10-60 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure) including curbs, sidewalks, fences, bridges, and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB Statement No. 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The following schedule presents the composition of the State's capital assets, adjustments, reclassifications, additions, and deletions during fiscal year 2002. The reclassifications column shows re-classes from one asset category to another. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during current year.

Capital Asset Activity

For the Year Ended August 31, 2002 (In Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/01	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/02
GOVERNMENTAL ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	$ 404,757	$ 4,538,777	$ 8,425	$ 260,909	$ (10,739)	$ 5,202,129
Infrastructure		32,256,526	1,222	964,571		33,222,319
Construction in Progress	591,826	877,950	(16,347)	1,821,982	(1,343,927)	1,931,484
Other Capital Assets	27,589	164,462	(4)	3,899	(458)	195,488
Total Non-Depreciable Assets	1,024,172	37,837,715	(6,704)	3,051,361	(1,355,124)	40,551,420
Depreciable Assets						
Buildings and Building Improvements	4,489,766	225,040	4,688	149,581	(48,442)	4,820,633
Infrastructure		12,875,610	(40,204)	308,852	(38,006)	13,106,252
Facilities & Other Improvements	153,998	(42,884)	46,890	8,448	(2,233)	164,219
Furniture and Equipment	1,824,133	(661,733)	(208,858)	136,036	(143,524)	946,054
Vehicle, Boats & Aircraft	598,624	(6,464)	204,427	70,995	(49,918)	817,664
Other Capital Assets	21,493	(4,957)	(1)	6,493	(1,997)	21,031
Total Depreciable Assets at Historical Costs	7,088,014	12,384,612	6,942	680,405	(284,120)	19,875,853
Less Accumulated Depreciation for:						
Buildings and Improvements		(1,804,150)		(142,223)	18,608	(1,927,765)
Infrastructure		(6,359,313)		(434,106)	16,726	(6,776,693)
Facilities & Other Improvements		(81,480)		(5,676)	1,928	(85,228)
Furniture and Equipment		(709,297)	(238)	(103,790)	129,326	(683,999)
Vehicles, Boats & Aircraft		(466,868)		(59,032)	45,964	(479,936)
Other Capital Assets		(4,833)		(1,255)	1,985	(4,103)
Total Accumulated Depreciation **	0	(9,425,941)	(238)	(746,082)	214,537	(9,957,724)
Depreciable Assets, Net	7,088,014	2,958,671	6,704	(65,677)	(69,583)	9,918,129
Governmental Activities Capital Assets, Net	$ 8,112,186	$40,796,386	$ 0	$ 2,985,684	$ (1,424,707)	$50,469,549

* The adjustments column includes GASB 34 fund type changes, capitalization threshold changes, assets that were not previously reported and accumulated depreciation.

** Depreciation expense was charged to governmental functions as follows:

General Government	$ 67,870
Education	3,175
Employee Benefits	
Health and Human Services	31,448
Public Safety and Corrections	143,884
Transportation	476,817
Natural Resources and Recreational Services	19,938
Regulatory Agencies	2,950
Total Governmental Activities Depreciation Expense	$ 746,082

Concluded on the following page

Capital Asset Activity (concluded)

For the Year Ended August 31, 2002 (In Thousands)

	Balance 9/1/01	Adjustments*	Reclassifications	Additions	Deletions	Balance 8/31/02
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	$ 396,822	$ (1,802)	$ 793	$ 71,841	$ (828)	$ 466,826
Construction in Progress	1,336,441	(121,077)	(15,364)	1,104,151	(550,211)	1,753,940
Other Capital Assets	1,127,544	(95,383)	149,893	88,628	(9,012)	1,261,670
Total Non-Depreciable Assets	2,860,807	(218,262)	135,322	1,264,620	(560,051)	3,482,436
Depreciable Assets						
Buildings and Building Improvements	8,215,794	101,705	32,719	480,265	(19,863)	8,810,620
Infrastructure	563,492	(193,172)	88,780	35,044	(6,347)	487,797
Facilities & Other Improvements	696,428	70,601	(112,495)	45,684	(3,254)	696,964
Furniture and Equipment	3,789,552	(1,098,028)	(296,828)	352,772	(226,967)	2,520,501
Vehicle, Boats & Aircraft	1,339	(3,094)	152,218	23,549	(5,722)	168,290
Other Capital Assets	39,136	23,516	284	6,035	(4,939)	64,032
Total Depreciable Assets at Historical Costs	13,305,741	(1,098,472)	(135,322)	943,349	(267,092)	12,748,204
Less Accumulated Deprecation for						
Buildings and Improvements	(1,739)	(4,579,844)	(824)	(178,331)	4,934	(4,755,804)
Infrastructure	(8)	(283,735)		(8,839)	(83)	(292,665)
Facilities & Other Improvements	(499)	(308,660)		(16,121)	560	(324,720)
Furniture and Equipment	(48,839)	(1,543,134)	824	(264,689)	160,384	(1,695,454)
Vehicle, Boats & Aircraft	(943)	(107,054)		(6,030)	3,905	(110,122)
Other Capital Assets		(24,446)		(3,675)	21	(28,100)
Total Accumulated Depreciation **	(52,028)	(6,846,873)	0	(477,685)	169,721	(7,206,865)
Depreciable Assets, Net	13,253,713	(7,945,345)	(135,322)	465,664	(97,371)	5,541,339
Business-Type Activities Capital Assets, Net	$16,114,520	$ (8,163,607)	$ 0	$ 1,730,284	$ (657,422)	$ 9,023,775

* The adjustments column includes GASB 34 fund type changes, capitalization threshold changes, assets that were not previously reported and accumulated depreciation.

** Depreciation was charged to business-type functions as follows:

Colleges and Universities	$ 473,881
Veterans Land Board	1,879
Other	1,925
Total Business-Type Activities Depreciation Expense	$ 477,685

Note 3
Deposits, Investments, and Repurchase Agreements

LEGAL AND CONTRACTUAL PROVISIONS

Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the State Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during, and at the end of the day. The Trust Company met those requirements throughout fiscal year 2002. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and

acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, as well as colleges and universities, are authorized to invest funds not deposited with the Treasury. Allowable investments at the four largest investing entities are summarized below:

- The Teacher Retirement System is authorized to make investments following the "prudent person rule." Categories of permissible investments include stocks, obligations, real estate, mortgages, cash equivalents, and alternative investments including the Texas Growth Fund.
- The Texas Education Agency may make investments under the "prudent person rule." Authorized investments include fixed income securities including U.S. or foreign treasury or government agency obligations, U.S. or foreign corporate bonds, asset or mortgage backed securities; equities including U.S. or foreign stocks and bonds, debentures and investment trusts, money market funds, commercial paper, U.S. or foreign bank time deposits, bankers acceptances, and fully collateralized repurchase agreements.
- The Employees Retirement System, with certain restrictions, may make investments under the "prudent person rule." Authorized investments include domestic equities, foreign equities of companies domiciled in countries within the Europe Australia Far East (EAFE) index, and U.S. dollar denominated fixed income and short-term securities.
- Most investments held by the University of Texas System are maintained in pools or "funds." The primary standard for making investment decisions for all of these funds is the "prudent investor rule." Investments authorized, with certain restrictions, include common and preferred stock, corporate obligations, commercial paper, bankers' acceptances, repurchase agreements, U.S. Government and Agency Obligations, bonds of the State of Texas and political subdivisions, University of Texas or Texas A&M University bonds or notes, and unaffiliated investment funds.

Fair Value Reporting

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* require defined benefit pension plans and governmental entities, respectively, to report investments at fair value as of the balance sheet date and to reflect the changes in the fair value of investments as revenue in the operating statements.

The fair value of the state's investments is determined from quoted market prices. Governmental entities other than external investment pools may report money market investments at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

Additionally, the accounting pronouncement requires the state to report its external investment pool, TexPool, as an investment trust fund. A separate report of the Pool can be obtained from the Comptroller of Public Accounts.

Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by the pledging, to the Treasury, of securities valued at market excluding accrued interest to the Treasury. Generally, the list of eligible securities includes all United States Treasury Obligations, and most Agency Obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank domiciled in the state, any Federal Reserve Bank or one of its branches, the Texas Treasury Safekeeping Trust Co., any Federal Home Loan Bank or in the vault of the Treasury. During fiscal year 2002, no depository holding state funds failed.

State agencies and institutions of higher education, with deposits of public funds that are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law. However, retirement systems are exempt by statute from this requirement.

Deposits

At August 31, 2002, the carrying amount of deposits for the state and its component units was $1.4 billion. This amount consists of all cash in local banks and a portion of short-term investments. This amount is included on the Combined Balance Sheet as part of the "Cash and Cash Equivalents" account.

The local bank balances for the state and its component units were $1.6 billion. This amount is reported using the following categories of credit risk.

Category 1: Fully insured by the FDIC or collateralized with securities held by the state or by the state's agent in the state's name, $933 million.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the state's name, $34 million.

Category 3: Either not collateralized or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the state's name, $664 million.

The carrying amount of deposits for component units that are presented discretely in the financial statements was $95 million and the bank balance was $97 million. These component units were audited by external auditors. These deposits are included above and consist of $47 million in Category 1, and $50 million in Category 3. The component units had no bank deposits in Category 2. The Cash and Cash Equivalents account, including component units, is composed of the following:

Cash and Cash Equivalents
(In Thousands)

	Governmental and Business-Type	Fiduciary	Component
Unrestricted Cash and Cash Equivalents			
Cash on Hand	$ 21,408	$ 19,243	$ 18
Cash In Transit	25,338		
Cash in Local Banks	47,001	49,465	71,644
Cash & Investments Held by Treasury	11,437,931	1,579,059	16,517
Cash Equivalents	1,698,820		32,664
Total Unrestricted Cash and Cash Equivalents	13,230,498	1,647,767	120,843
Current Restricted Cash and Cash Equivalents			
Cash on Hand	$ 1,621	$	$
Cash in Local Banks	74,734		23,642
Cash & Investments Held by Treasury	33,348		
Cash in Federal Treasury	457,876		
Cash Equivalents	942,936		93
Total Current Restricted Cash and Cash Equivalents	1,510,515	0	23,735
Noncurrent Restricted Cash and Cash Equivalents			
Cash in Local Banks	$ 12,606	$	$
Cash Equivalents	21,208		169
Total Noncurrent Restricted Cash and Cash Equivalents	33,814	0	169
Total Cash and Cash Equivalents	$ 14,774,827	$ 1,647,767	$ 144,747

Investments

The schedules shown on the following page disclose the carrying value and fair value of the state's investments by type and category of credit risk. The first schedule discloses the investments held by the Primary Government. The second schedule discloses the investments held by component units that are presented discretely in the financial statements. The categories of credit risk are as follows:

A. Insured or registered, or securities held by the state or its agent in the state's name.
B. Uninsured and unregistered, with securities held by the counterparty trust department or agent in the state's name.
C. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the state's name.

Certain investments in mutual funds cannot be categorized because they are not evidenced by securities that exist in physical or book-entry form.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Texas Treasury Safekeeping Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at August 31, 2002 was $174,059,542 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $174,059,542. Therefore, the Treasury had no credit exposure at year end.

Securities Lending

The Texas Education Agency (TEA), the Teacher Retirement System (TRS), the University of Texas System (UT), the Texas A&M University System (A&M), the Employees Retirement System (ERS), the General Land Office and Veterans Land Board (GLO/VLB), and The Texas Prepaid Higher Education Tuition Board (TPHETB) participate in a securities lending program as authorized by state statute. Under this program, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities, or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent. ERS receives collateral in the form of cash or U.S. Government or Agency securities equal to 100% of the fair value plus accrued income on its loaned securities. TEA, TRS, UT, and the GLO/VLB receive collateral equal to 102% of the fair value plus accrued income for domestic corporate securities and 105% of the fair value for international securities on loan. TEA receives collateral in excess of 100% of the fair value plus accrued interest for domestic governmental securities. A&M and TPHETB receive collateral at least equal to 102% of the fair value of its loaned securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify the state if the borrowers fail to return the securities.

At year end there was no credit risk exposure to the state because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. The

Investments Held by Primary Government
(In Thousands)

	Category A	Category B	Category C	Carrying Value*	Fair Value**
U.S. Government Investments	$ 31,453,170	$ 39,490	$ 563,033	$ 32,055,693	$ 32,063,441
Collateralized Mortgage Obligations	5,176,208			5,176,208	5,176,208
Corporate Stock	53,577,219		1,851	53,579,070	53,579,070
Corporate Obligations	10,212,203		647,003	10,859,206	10,859,206
Political Subdivision Bonds	80,786			80,786	80,786
Repurchase Agreements	16,658,958	18,082	161,083	16,838,123	16,838,123
Foreign Securities	16,411,510		153	16,411,663	16,411,662
Commercial Paper	504,605		889,229	1,393,834	1,393,834
Other Investments	98,680	4,320	111	103,111	103,111
Total Categorized Investments	$ 134,173,339	$ 61,892	$ 2,262,463	$ 136,497,694	$ 136,505,441
Uncategorized Investments:					
Investments Held by Broker-Dealers:					
Under Reverse Repurchase Agreements				$ 173,463	$ 173,463
Under Securities Lending				4,981,912	4,981,912
Securities Lending Collateral Investment Pool				635,599	635,599
Real Estate and Mortgages				1,039,702	1,039,702
Other Uncategorized Investments				21,134,001	21,134,001
Total Investments Held by Primary Government				$ 164,462,371	$ 164,470,118

* The difference in the total carrying amount of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Cash Equivalents.

** Pension trust fund investments are reported at fair value, as required by GASB Statement 25. Other investments are reported at fair value, as required by GASB Statement 31.

Investments Held by Discrete Component Units
(In Thousands)

	Category A	Category B	Category C	Carrying Value*	Fair Value**
U.S. Government Investments	$ 283,461	$	$	$ 283,461	$ 283,461
Political Subdivision Bonds	28,960			28,960	28,960
Repurchase Agreement	29,824			29,824	29,824
Miscellaneous Agreements	30,401			30,401	30,401
Total Categorized Investments	$ 372,646	$ 0	$ 0	$ 372,646	$ 372,646
Uncategorized Investments				137,982	137,982
Total Investments Held by Discrete Component Units				$ 510,628	$ 510,628

* The difference in the total carrying amount of investments and that on the combined balance sheet represents the current portion of investments that is included in Cash and Cash Equivalents.

** Investments are reported at fair value, as required by GASB Statement 31.

relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements for TRS, ERS and A&M. GLO/VLB loans are terminable at will, UT manages its investments to maintain an average maturity and overnight liquidity, and TEA maturities are defined by the lending agreement. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

The state's aggregate amount of securities out on loan to broker-dealers at August 31, 2002 was approximately $5.2 billion. The Teacher Retirement System began their securities loan program in February 1991 and had $57 million of securities out on loan to broker-dealers at August 31, 2002. The Employees Retirement System began their program in July 1991 and had securities of $2.3 billion out on loan to broker-dealers at August 31, 2002. The University of Texas System began their program in September 1995 and had securities of $204 million out on loan to broker-dealers at August 31, 2002. The Texas Education Agency began their program in February 1993 and had securities of $2.2 billion out on loan to broker-dealers at August 31, 2002. The Texas A&M University System began their program in 1993 and had securities of $256 million out on loan to broker-dealers at August 31, 2002. The General Land Office/Veteran's Land Board began their program in February 1999 and had securities of $41 million out on loan to broker-dealers at August 31, 2002. The Texas Prepaid Higher Education Tuition Board began their program in September 2001 and had securities of $137 million out on loan to broker-dealers at August 31, 2002.

Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to, or "derived" from changes in interest rates, currency rates, and stock and commodity prices. Derivatives cover a broad range of financial instruments, such as forwards, futures, options, swaps, and mortgage derivatives.

Texas agencies and universities invest in mortgage derivatives. These mortgage derivatives are influenced by changes in interest rates, the current economic climate, and the geographic make-up of underlying mortgage loans. There are varying degrees of risk associated with mortgage derivatives. For example, Planned Amortization Class (PACs) and Collateralized Mortgage Obligations (CMOs) are considered a more conservative lower risk investment. In contrast, principal only and interest only strips are considered higher risk investments. Texas agencies and universities had total investments in derivatives with both carrying and fair value of $7.1 billion or 4.33% of the carrying value and 4.33% of the fair value of the state's total investments as of August 31, 2002. Several smaller universities also hold mortgage derivatives that are high risk. The majority of these investments were purchased prior to fiscal year 1995.

In 1995, the Texas Legislature took steps to limit state entities' and local governments' ability to invest in high risk derivatives by amending the Public Funds Investment Act. These statutory limitations do not apply to certain funds, such as public retirement systems, funds invested by the Treasury, institutions of higher education having total endowments of at least $95 million, and funds invested by the Veteran's Land Board.

Note 4
Short-Term Debt: Tax and Revenue Anticipation Notes

On August 28, 2001 (with an issue date of September 4, 2001), $4 billion in the State of Texas Tax and Revenue Anticipation Notes, Series 2001A, were sold to coordinate the cash flow of the state for the fiscal year ended August 31, 2002. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the General Revenue Fund. The Series 2001A were repaid during fiscal year 2002 and bore interest at 3.75% and were priced to yield 2.49%.

On August 20, 2002, the Comptroller's office sold approximately 5.8 billion of the State of Texas Tax and Revenue Anticipation Notes, Series 2002 dated August 29, 2002 with a maturity date of August 29, 2003. The notes bear interest at 2.75% and were priced to yield 1.418%. They are not subject to redemption prior to maturity. Short-term debt activity for the year ended August 31, 2002, is as follows:

Tax and Revenue Anticipation Notes
(in Thousands)

	Beginning Balance 9/1/01	Issued	Redeemed	Ending Balance 8/31/02
Tax and Revenue Anticipation Notes	$ 0	$ 9,822,475	$ 4,000,000	$ 5,822,475

Note 5
Long-Term Liabilities

The long-term liabilities activity for the fiscal year ended August 31, 2002 is shown in the table below:

Long-Term Liabilities Activity

For the Year Ended August 31, 2002 (In Thousands)

	Beginning Balance 9/1/01	Additions	Deletions	Ending Balance 8/31/02	Amounts Due within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	$ 182,841	$ 82,913	$ 67,746	$ 198,008	$ 102 *	$ 197,906
Capital Lease Obligations	56,835	473	5,434	51,874	3,202	48,672
Employees' Compensable Leave	473,443	420,202	447,129	446,516	290,455	156,061
Notes and Loans Payable	424,100	91,865	417,700	98,265	4,913	93,352
General Obligation Bonds Payable	2,737,396	517,150	173,815	3,080,731	190,500	2,890,231
Revenue Bonds Payable	872,360	21,462	84,694	809,128	74,106	735,022
Net Pension Obligation		230,241		230,241		230,241
Other Non-Current Liabilities		1,954		1,954		1,954
Governmental Activities Long-Term Liabilities	$ 4,746,975	$ 1,366,260	$ 1,196,518	$ 4,916,717	$ 563,278	$ 4,353,439
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	$ 52,486	$ 5,772	$ 10,687	$ 47,571	$ 3,568	$ 44,003
Capital Lease Obligations	4,387	16,775	1,576	19,586	1,714	17,872
Employees' Compensable Leave	307,705	75,730	29,611	353,824	47,544	306,280
Notes and Loans Payable	475,913	1,535,213	404,292	1,606,834	533,333	1,073,501
Liabilities from Restricted Assets		3,692,143		3,692,143	892,048	2,800,095
General Obligation Bonds Payable	2,533,431	294,955	157,792	2,670,594	124,955	2,545,639
Revenue Bonds Payable	6,238,919	2,622,299	597,461	8,263,757	249,900	8,013,857
Assets Held for Others		407,245		407,245		407,245
Other Non-Current Liabilities		51,339		51,339		51,339
Business-Type Activities Long-Term Liabilities	$ 9,612,841	$ 8,701,471	$ 1,201,419	$ 17,112,893	$ 1,853,062	$ 15,259,831
COMPONENT UNITS						
Claims and Judgments	$ 498,362	$	$ 498,362	$	$	$
Capital Lease Obligations	54		27	27	25	2
Employees' Compensable Leave	2,276	1,703	1,256	2,723	1,094	1,629
Notes and Loans Payable	191,717	50,319		242,036	56,945	185,091
Liabilities from Restricted Assets		151,163		151,163		151,163
Revenue Bonds Payable	178,977	24,625	14,589	189,013	12,680	176,333
Other Non-Current Liabilities		31,035		31,035		31,035
Component Unit Long-Term Liabilities	$ 871,386	$ 258,845	$ 514,234	$ 615,997	$ 70,744	$ 545,253

* This amount does not tie to the Statement of Net Assets by $3,677 which is not considered to be a portion of long-term liabilities since it was reported on the fund financial statements.

Notes and Loans Payable consists of amounts used to purchase mainframe computer equipment, software development, and construction of adult and youth corrections and mental health and mental retardation facilities. Debt service requirements for Notes and Loans Payable in the long-term liabilities are shown below (in thousands):

Notes Payable
Debt Service Requirements
Governmental Activities
(In Thousands)

	Principal	Interest	Total
2003	$ 10,358	$ 4,919	$ 15,277
2004	11,831	4,347	16,178
2005	11,040	3,755	14,795
2006	10,480	3,205	13,685
2007	7,279	2,713	9,992
2008 - 2012	21,037	9,696	30,733
2013 - 2017	17,581	4,830	22,411
2018 - 2022	8,659	1,182	9,841
Total Requirements	$ 98,265	$ 34,647	$ 132,912

Notes Payable
Debt Service Requirements
Business-Type Activities
(In Thousands)

	Principal	Interest	Total
2003	$ 534,664	$ 41,299	$ 575,963
2004	4,929	48,767	53,696
2005	5,052	48,543	53,595
2006	5,284	48,314	53,598
2007	130,455	48,076	178,531
2008 - 2012	799,824	53,651	853,475
2013 - 2017	24,563	10,367	34,930
2018 - 2022	30,194	4,745	34,939
2023 - 2027	3,818	170	3,988
Total Requirements	$ 1,538,783	$ 303,932	$ 1,842,715
Premium/Discount*	$ 68,051		$ 68,051
Total	$ 1,606,834	$ 303,932	$ 1,910,766

* Bond anticipation notes include premium and discount ($68,112 - $61 = $68,051)

Notes Payable
Debt Service Requirements
Component Units
(In Thousands)

	Principal	Interest	Total
2003	$ 56,944	$ 12,192	$ 69,136
2004	29,559	11,488	41,047
2005	27,785	9,537	37,322
2006	26,252	7,708	33,960
2007	29,774	6,065	35,839
2008 - 2012	71,722	9,149	80,871
Total Requirements	$ 242,036	$ 56,139	$ 298,175

General Obligation Bonds Payable and Revenue Bonds are described in detail in Note 6.

Claims and Judgments are payments on behalf of the state, its agencies, and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above $25,000 or numerous separate claims from the same individual or entity that in total exceed $25,000 must be approved by the State Legislature before being paid.

Employees' Compensable Leave is the state's liability for all unused vacation and unpaid over-time accrued by employees payable as severance pay under specified conditions. This obligation is paid only at the time of termination.

Capital Lease Obligations are described in detail in Note 7.

Liabilities that are associated with the acquisition of restricted assets or liabilities that will be liquidated with restricted assets are classified as Payable from Restricted Assets.

Net Pension Obligation is described in Note 9.

Assets held by the state for non-state entities (such as art collections owned by families, estates, and others) are classified as Assets Held for Others.

All remaining liabilities are classified as Other.

Note 6
Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The State of Texas has 344 bond issues outstanding as of August 31, 2002.

General Obligation Bonds - General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

During fiscal year 2002, $231 million of general revenue was required for the general obligation debt service payments of the Texas Public Finance Authority, Texas Water Development Board and the Constitutional Appropriation Bonds. All other debt service requirements for general obligation bonds were covered by primary revenue sources.

The purpose and primary pledged revenue sources of each type of bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** issues general obligation bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects, and flood control projects. Debt service payments are funded by principal and interest received on bonds bought from the political subdivisions, repayments of purchased water storage contracts, and earnings on temporary investments.

The **General Land Office/Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing, or home improvements.

Constitutional Appropriation Bonds are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the $87.5 million in general revenue available for debt service each year.

The **Texas Department of Economic Development** has the authority to issue general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes.

The **Texas Agricultural Finance Authority**, a public authority created within the Department of Agriculture, has the authority to issue bonds to provide financial assistance for the expansion, development, and diversification of agricultural businesses.

General Obligation Bonds - Authorized But Unissued

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 2002, the amounts of general obligation bonds other than Constitutional Appropriation Bonds that were authorized but unissued are listed in the table on the following page.

General Obligation Bonds Authorized But Unissued
(In Thousands)

Self-Supporting:	
Texas Agricultural Finance Authority Bonds	$ 21,000
Texas Department of Economic Development Bonds	45,000
Farm and Ranch Loan Bonds	474,000
Veterans Land and Housing Bonds	655,002
Water Development Bonds	2,344,886
College Student Loan Bonds	325,000
	3,864,888
Not Self-Supporting:	
Texas Public Finance Authority Bonds	1,016,235
Agricultural Water Conservation Bonds	164,840
Water Development Bonds - Participation Bonds	15,000
Water Development Bonds	61,571
	1,257,646
Total General Obligation Bonds	$5,122,534

Revenue Bonds - General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations:

- Texas Military Facilities Commission Bonds
- Texas Public Finance Authority Bonds
- Texas Department of Criminal Justice Bonds
- Texas Parks and Wildlife Department Bonds

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Texas Military Facilities Commission** issues bonds for the construction, expansion, and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund that would operate as an insurance carrier. Due to changes in organizational structure, the fund is now a related organization and their name has changed to the Texas Mutual Insurance Company. Debt service is financed through a maintenance tax surcharge on the reported gross premiums of insurers providing workers' compensation coverage in the state. The Authority has also issued bonds on behalf of other state agencies and universities.

The **Texas Department of Criminal Justice** operates several prison facilities constructed with bond proceeds

Changes in Bonds Payable (Amounts in Thousands)

	Bonds Outstanding 9/1/01	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/02	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 2,737,396	$ 517,150	$ 173,815	$	$ 3,080,731	$ 190,500
Revenue Bonds	872,360	21,462	71,049	13,645	809,128	74,106
Governmental Activities Bond Total	3,609,756	538,612	244,864	13,645	3,889,859	264,606
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,533,431	294,955	121,877	35,915	2,670,594	124,955
Revenue Bonds	6,238,919	2,622,299	239,527	357,934	8,263,757	249,900
Business-Type Activities Bond Total	8,772,350	2,917,254	361,404	393,849	10,934,351	374,855
COMPONENT UNITS						
Revenue Bonds	178,977	24,625	13,000	1,589	189,013	12,680
Total Bonds	$12,561,083	$ 3,480,491	$ 619,268	$ 409,083	$15,013,223	$ 652,141

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2003	$ 190,500	$ 161,174	$ 351,674	$ 74,106	$ 38,287	$ 112,393
2004	210,545	145,399	355,944	77,548	34,121	111,669
2005	221,355	133,975	355,330	80,857	30,217	111,074
2006	244,225	122,589	366,814	84,326	26,008	110,334
2007	259,140	110,547	369,687	80,097	21,679	101,776
2008-2012	1,160,765	352,994	1,513,759	268,025	71,569	339,594
2013-2017	558,875	189,014	747,889	168,170	28,201	196,371
2018-2022	152,905	53,261	206,166	33,570	3,880	37,450
2023-2027	53,445	28,229	81,674	3,075	535	3,610
2028-2032	43,600	16,047	59,647	0	0	0
2033-2037	32,635	3,621	36,256	0	0	0
	3,127,990 *	1,316,850	4,444,840	869,774	254,497	1,124,271
Less Accretion	47,259		47,259	60,647		60,647
Total	$ 3,080,731	$ 1,316,850	$ 4,397,581	$ 809,127	$ 254,497	$ 1,063,624

BUSINESS-TYPE ACTIVITIES

	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2003	$ 124,955	$ 150,792	$ 275,747	$ 249,900	$ 422,627	$ 672,527
2004	106,209	144,777	250,986	423,354	411,312	834,666
2005	89,313	139,915	229,228	291,548	387,372	678,920
2006	78,907	135,587	214,494	282,464	374,291	656,755
2007	82,379	131,701	214,080	296,942	359,696	656,638
2008-2012	484,710	588,438	1,073,148	1,509,107	1,564,475	3,073,582
2013-2017	500,663	455,404	956,067	1,711,403	1,165,183	2,876,586
2018-2022	501,325	298,700	800,025	1,331,568	763,872	2,095,440
2023-2027	322,945	171,427	494,372	871,204	530,925	1,402,129
2028-2032	310,055	72,591	382,646	1,070,946	349,296	1,420,242
2033-2037	85,420	10,002	95,422	840,093	251,374	1,091,467
2038-2042	5,440	768	6,208	944,652	153,030	1,097,682
	2,692,321 *	2,300,102	4,992,423	9,823,181 *	6,733,453	16,556,634
Less Accretion	21,727		21,727	1,553,424		1,553,424
Less Loss on Refunding				6,000		6,000
Total	$ 2,670,594	$ 2,300,102	$ 4,970,696	$ 8,263,757	$ 6,733,453	$ 14,997,210

COMPONENT UNITS

	Revenue Bonds		
Year	Principal	Interest	Total
2,003	$ 12,680	$ 9,513	$ 22,193
2,004	11,590	8,875	20,465
2,005	11,020	8,260	19,280
2,006	10,025	7,661	17,686
2,007	9,315	7,091	16,406
2008-2012	17,580	29,407	46,987
2013-2017	910	26,917	27,827
2018-2022	720	26,652	27,372
2023-2027	99,910	20,659	120,569
2033-2037	0	1,552	1,552
2038-2042	20,000	464	20,464
	193,750 *	147,051	340,801
Loss on Refunding	4,737		4,737
Total	$ 189,013	$ 147,051	$ 336,064

* Increase is due to accretion adjustment on deep discount bonds and/or loss on refunding.

Miscellaneous Bond Information
(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 4,824,884	2.00	10.40	1991	2035	08/01/99
Revenue Bonds	1,386,062	3.00	9.50	1991	2025	04/01/00
Governmental Activities Bond Total	$ 6,210,946					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	$ 3,617,130	2.25	9.50	1993	2041	12/01/93
Revenue Bonds	10,433,137	1.45	13.33	1970	2042	01/01/78
Business-Type Activities Bond Total	$ 14,050,267					
COMPONENT UNITS						
Revenue Bonds	$ 244,735	3.25	6.62	1989	2026	07/15/86
Grand Total	$ 20,505,948					

issued by private financing corporations. Debt service payments are payable from rental revenues received from the Department. Once the bonds have been redeemed, title to the facilities will rest with the state.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs. The bonds are payable from state appropriations.

The **General Land Office/Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, and receipts pledged under the related trust indenture.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Water Pollution Control Revolving Fund commonly referred to as the State Revolving Fund. The proceeds are used to provide financial assistance to political subdivisions to construct wastewater treatment facilities. Political subdivision bonds are pledged for debt service requirements of the bonds.

Permanent University Fund (Fund) Bonds are issued by the University of Texas and Texas A&M University Systems to build, equip, or buy buildings or other permanent improvements. The Texas Constitution limits each System's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at August 31, 2002, excluding real estate, was $7,309,852,000. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds
(In Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$ 1,461,970	$ 621,790	$ 840,180
Texas A&M University System	730,985	249,676	481,309
Totals	$ 2,192,955	$ 871,466	$ 1,321,489

Miscellaneous College and University Revenue Bonds are issued by colleges and universities and include (a) various series secured by pledged revenues from auxiliary enterprises and (b) various series secured by pledged student tuition and fees. Numerous revenue bond series have been issued by 11 state colleges and universities, and university systems.

The **Texas Small Business Industrial Development Corporation**, a non-profit corporation managed by the Department of Economic Development, issues industrial development loans to businesses and political subdivisions. The bonds are obligations of the corporation; payable and collateralized solely by the revenues and assets pledged in trust indentures and sales contracts.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The political subdivision bonds are pledged for debt service requirements of the bonds.

Demand Bonds

The Texas Small Business Industrial Development Corporation (TSBIDC) has issued revenue bonds and the General Land Office/Veteran's Land Board (GLO) has issued nine general obligation variable rate bonds that are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. TSBIDC bond proceeds are used to issue industrial development loans to businesses and political subdivisions and GLO bond proceeds were used to fund housing and land loans to eligible Texas veterans. The principal balances outstanding on these bonds at August 31, 2002 are $99,335,000 and $395,890,000 respectively.

TSBIDC has entered into an irrevocable letter of credit agreement with Kredietbank Bank that expires July 29, 2003. The letter of credit secures the demand bonds. Interest is payable on the principal portion up to a maximum of 58 days' accrued interest at 15%. Letter of credit fees are paid quarterly at 0.4% per annum of the stated amount of the letter of credit with various applicable adjustments.

GLO has entered into a liquidity agreement with the Comptroller of Public Accounts that secures three of the bond issues. The agreement terminates on August 31, 2003. In addition, GLO has entered into a standby bond purchase agreement with JP Morgan Chase Bank that secures five bond issues. This agreement terminates December 17, 2002. The GLO has also entered into a standby bond purchase agreement with Landesbank Hessen-Thüringen Girozentrale for one bond issue. This agreement terminates on July 8, 2003. Under the agreements, the liquidity provider receives an annual liquidity fee of 0.04%, .11% and 0.125%, respectively, on the principal outstanding.

The bondholder may tender any of these bonds for repurchase every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity or standby purchase agreements. As of August 31, 2002, there have been no draws on the letter of credit or any agreements. TSBIDC and GLO do not have take out agreements as part of the letter of credit, liquidity, or standby purchase agreements nor as a separate arrangement.

Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal year 2002 are as follows:

Early Extinguished Debt Issues
(In Thousands)

General Land Office	$ 41,872
Texas Higher Education Coordinating Board	6,175
Department of Housing and Community Affairs	219,011
Stephen F. Austin State University	3,340
University of Texas System	108,515
Water Development Board	7,165
Total	$ 386,078

The source of funds used for the extinguishments included loan repayments, bond proceeds, and other available funds.

Advance Refunding

During fiscal year 2002, two entities advanced refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

Advance Refunding Issues
(In Thousands)

	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase (Reduction)	Economic Gain (Loss)
Water Development Board	$ 15,535	$ 15,535	$ 1,688	$ 1,148
Texas Military Facilities Commission	7,470	7,470	375	302
Total	$ 23,005	$ 23,005	$ 2,063	$ 1,450

Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the State Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the State Treasury Safekeeping Trust Company to defease $1,131,370 in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. As of August 31, 2002, the following amounts of defeased bonds, at par, remained outstanding:

Defeased Bonds Outstanding
(In Thousands)

General Obligation Bonds:	
State Agencies	$1,420,790
Revenue Bonds:	
State Agencies	303,669
Colleges and Universities	466,348
Total	$2,190,807

Conduit Debt

The Texas State Affordable Housing Corporation is authorized to issue statewide 501 (c) (3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501 (c) (3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the State of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of August 31, 2002, there were thirty-five series of multifamily housing revenue bonds outstanding with an aggregate $486,038,772 principal amount payable.

Note 7
Capital Leases

The state has entered into long-term capital leases to buy certain capital assets. The assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

The following table is an analysis of the property acquired under capital leases by asset category at August 31, 2002.

Future Capital Lease Payments

(In Thousands)
For the Year Ended August 31, 2002

	Primary Government				Discretely Presented Component Unit	
	Governmental Activities		Business-Type Activities			
	Present Value of Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments	Interest
2003	$ 3,202	$ 3,669	$ 1,714	$ 1,150	$ 25	$ 1
2004	3,245	3,433	1,860	956	2	
2005	3,324	3,195	1,342	861		
2006	3,253	2,958	1,251	780		
2007	3,390	2,719	1,014	713		
2008-2012	17,654	10,850	5,736	2,671		
2013-2017	8,793	4,581	6,526	975		
2018-2022	6,894	2,086	143	4		
2023-2027	2,119	112				
Totals	$ 51,874	$ 33,603	$ 19,586	$ 8,110	$ 27	$ 1

Assets Under Capital Leases

(In Thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business-Type Activities			
Class of Property	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$ 2,076	$	$	$	$	$
Buildings	65,414	4,500	15,986			
Furniture and Equipment	1,973	873	6,574	1,020	80	55
Vehicles, Boats, etc.	499	57	306	84		
Totals	$ 69,962	$ 5,430	$ 22,866	$ 1,104	$ 80	$ 55

Note 8
Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of August 31, 2002:

Noncancelable Operating Leases
(In Thousands)

Minimum Future Rentals as of August 31, 2002	Minimum Future Lease Payments Primary Government	Component Units
2003	$ 176,469	$ 3,402
2004	138,813	1,274
2005	122,545	819
2006	87,978	445
2007	66,328	358
2008 - 2012	97,805	329
2013 - 2017	9,150	
2018 - 2022	1,163	
Total	$ 700,251	$ 6,627

Note 9
Retirement Systems

The State of Texas has three public employee retirement systems (PERS) that administer seven defined benefit plans and one defined contribution plan. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three agencies that administer the plans, the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC) issue separate financial reports. These reports are audited as individual entities with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, TX 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, TX 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, TX 78701-2332

The state has also established by Tex. Gov. Code, Chapter 830, an optional retirement program for agencies and institutions of higher education. Participation in the optional retirement program provides for the purchase of annuity contracts from any insurance or annuity company that is qualified to do business in Texas. With the purchase of these individual annuity contracts, the state has effectively transferred the obligation for the payment of benefits to the company. In the event of the insurance or annuity company's insolvency, the state does not guarantee benefits. The contributory percentages of participant salaries provided by each participant and the state were 6.65% for the participant and 6.00% for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.50% from operating funds for this retirement program. For the year ended August 31, 2002, the state's expense/contribution was $66,985,001.

GASB Statement 26 relating to post employment health care is not applicable for the State of Texas since the health care plans are not administered by the pension trust funds.

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of the Employees Retirement System of Texas is the administrator of the Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (LECO), and the Judicial Retirement System of Texas Plan One and Plan Two (JRS). Each of these plans is considered to be a single-employer defined benefit pension plan.

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits

for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class, and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. With the exception of the Judicial Retirement Plan Two, contribution requirements are not actuarially determined.

The Employees Retirement System of Texas's audited report contains the actuarial valuations as of August 31, 2001 along with an actuarial letter dated December 12, 2001 which states that no subsequent legislative action negatively affects their certification of actuarial soundness of the funds. The actuarial valuations for August 31, 2002 were not available for inclusion in the audited report.

Employees Retirement System of Texas Plan

The Employees Retirement System of Texas Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, covers elected class members, employee class members and commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see Funding Information, Actuarial Methods, and Assumptions Table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of creditable service and may retire at age 50 with twelve years of service or at age 60 with eight years of service. The statutorial percentage is equal to 2.3% of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by the Teacher Retirement System and the Judicial Retirement System. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. The statutorial percentage is equal to 2.3% of the average of the highest 36 months of compensation. The minimum monthly standard annuity is $150; the maximum standard annuity is 100% of the final average salary.
- Commissioned peace officers and custodial officers may retire at age 55 with ten years or at age 50 with twenty years of service.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECO) covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits once they complete 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The total monthly benefit is equal to a percentage of final average compensation multiplied by years and months of service. Final average compensation is equal to the average of the highest 36 months of salary out of the member's established service. The percentage value used to calculate benefits is the rate of the employee class plus 0.5% subject to a maximum of 100%. The monthly benefit payable from this fund is equal to the excess of the total benefit, as described above, over the regular benefit payable to the member from the Employees Retirement System.

For the bienniums ending August 31, 2001 and August 31, 2003, the state has not and will not be required to contribute to this fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

Judicial Retirement System of Texas Plans One and Two

The Judicial Retirement System of Texas Plans One and Two cover judges, justices, and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts, and certain commissions to a court. Members prior to August 31, 1985 participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with ten years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with twelve years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete ten years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with twelve years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50% of the salary for the position from which the member retired increased by 10% of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D requires employees to contribute 6% of their compensation and the state to make appropriations from the General Revenue Fund sufficient to administer the Judicial Retirement System Plan One. The system is funded on a pay-as-you-go basis. The contribution requirements are not actuarially determined. There are actuarial valuations and an actuarial cost method only for fulfilling GASB 25 and GASB 27 requirements.

The funding policy of the Judicial Retirement System Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas is a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas) but are the liability of the State of Texas. The Teacher Retirement System of Texas administers retirement, proportional retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. The benefit and contribution provisions of this plan are authorized by state law and may be amended by the Texas Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, are covered by the system.

A member is vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met. The normal service retirement is at age 65 with five years of service, or when the sum of the member's age and years of service equals or exceeds 80 years. Reduced service requirement is age 55 with five years of service and any age below 50 with thirty years of service. The standard life annuity benefit formula is 2.3% of the average of the three highest annual salaries multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of $150, or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

At August 31, 2002, the number of participating employing districts was as follows:

Employing Districts

Public Schools and Service Centers	1,241
Colleges, Universities, and Medical Schools	102
Educational State Agencies	2
Total	1,345

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy.

The State Constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the System during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

The Teacher Retirement System also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)
  DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard anuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years.
- A Partial Lump Sum Cash Option
  The Partial Lump Sum Cash Option reduces the standard monthly annuity. Members may select a partial lump sum distribution equal to 12, 24, or 36 months of a standard monthly annuity. This option is not available to those in DROP at the time of retirement, to those taking an early-reduced annuity, or to existing retirees (including disability retirees).

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for sole-employer plans for fiscal year 2002 are presented below.

Annual Pension Cost and Net Pension Obligation
(In Thousands)

	ERS*	LECO*	JRS1**	JRS2*	TRS***
Annual Required Contribution, ARC	$ 238,290	$ 0	$ 32,163	$ 6,821	$ 1,431,499
Interest on Net Pension Obligation, NPO	(7,661)		5,051	(47)	
Adjustment to ARC	4,731		(5,095)	22	
Annual Pension Cost	$ 235,360	$ 0	$ 32,119	$ 6,796	$ 1,431,499
Employer Contributions Made	$ 281,931	$ 0	$ 21,918	$ 7,258	$ 1,201,258
Increase(decrease) in NPO	$ (46,571)	$ 0	$ 10,201	$ (462)	$ 230,241
Net Pension Obligation, September 1	$ (95,755)	$ 0	$ 63,134	$ (593)	$ 0
Net Pension Obligation, August 31****	$ (142,326)	$ 0	$ 73,335	$ (1,055)	$ 230,241

* The NPO calculation covers September 1, 2000 through August 31, 2001.
** Shown for informational purposes only. The NPO calculation covers September 1, 2000 through August 31, 2001. The plan is pay-as-you-go.
*** The sole-employer provisions of GASB 27 will be applied to TRS. The NPO calculation covers September 1, 2001 through August 31, 2002.
**** See next page for actuarial assumptions used in determining cost and obligation.

Retirement Systems' Membership

	ERS*	LECO*	JRS1*	JRS2*	TRS	FPC**
Retirees and Beneficiaries Currently Receiving Benefits	48,356	3,072	485	31	201,441	1,403
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	45,813	17	24	77	38,554	1,639
Current Employees: Vested and Non-Vested	149,045	40,231	95	441	823,913	4,641
Total Members	243,214	43,320	604	549	1,063,908	7,683

* Totals are from actuarial valuations as of August 31, 2001.
** This total includes 746 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of August 31, 2002.

Funding Information, Actuarial Methods, and Assumptions

	ERS	LECO	JRS1	JRS2	TRS	FPC*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	
Legislators	8.0%	0.0%	0.0%	0.0%	0.0%	
Employer **	6.0%	0.0%	178.9%	16.8%	6.0%	
Annual Pension Cost (thousands)	$235,360	$0	$32,119	$6,796	$1,431,499	
Contributions Made (thousands)	$281,931	$0	$21,918	$7,258	$1,201,258	
Actuarial Valuation Date	August 31, 2001	August 31, 2001	August 31, 2001	August 31, 2001	August 31, 2002	August 31, 2000
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Closed Basis
Remaining Amortization Period of Unfunded Liability	0 years	8.1 years	0 years	0 years	Infinite	6.0 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	Market-Related
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	5.25%-17.5%	5.5%-17.5%	6.00%	6.00%	4.0%-26.15%	0.00%
Includes Inflation at	4.0%	4.0%	4.0%	4.0%	3.0%	0.0%
Cost-of-Living Adjustments	None-Employee 6.0%-Elected	None	6.00%	None	None	None

* Benefits are not based on the salaries of members.
** Contribution requirements for JRS2 are actuarially determined each even-numbered year.
TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

Fire Fighters' Pension Commission

The Fire Fighters' Pension Commission is the administrator of two pension plans:

- The Texas Statewide Emergency Services Retirement Act (TSESRA) Fund
- The Texas Local Fire Fighters Retirement Act (TLFFRA)

TSESRA is a cost-sharing multiple-employer pension plan established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without pay. At August 31, 2002 there were 173 member fire departments participating in the pension system.

The funding policy, established by statute, requires monthly contributions from the member fire departments of at least $12 for each member fire fighter. Additional contributions by the member fire departments may be necessary to pay for unfunded prior service costs, and "buy backs" of vested benefits required by the state. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. No contributions have been required from or made by the state in the current year.

Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
8/31/01	$ 18,394,458	$ 17,527,696	$ 866,762	104.9%	$ 4,946,244	17.5%
8/31/00	17,416,036	16,176,616	1,239,420	107.7%	4,680,182	26.5%
8/31/99	15,769,708	14,656,131	1,113,577	107.6%	4,719,116	23.6%
Law Enforcement and Custodial Officer Supplemental Retirement (LECO)						
8/31/01	$ 647,757	$ 492,127	$ 155,630	131.6%	$ 1,291,750	12.0%
8/31/00	619,218	547,767	71,451	113.0%	1,265,797	5.6%
8/31/99	573,154	497,794	75,360	115.1%	1,325,675	5.7%
Judicial Retirement System Plan Two (JRS2)						
8/31/01	$ 101,327	$ 92,490	$ 8,837	109.6%	$ 44,490	19.9%
8/31/00	86,962	81,417	5,545	106.8%	41,419	13.4%
8/31/99	70,834	69,663	1,171	101.7%	39,630	3.0%
Teacher Retirement System of Texas (TRS)						
8/31/02	$ 86,034,963	$ 89,322,406	$ (3,287,443)	96.3%	$ 24,818,417	(13.2)%
8/31/01	86,351,960	84,216,785	2,135,175	102.5%	23,364,661	9.1%
8/31/00	79,328,178	73,882,010	5,446,168	107.4%	21,920,132	24.8%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Statewide Emergency Services Retirement Act (TSESRA)						
8/31/00	$ 36,768	$ 36,049	$ 719	102.0%	$ 7,114	101
8/31/98	26,420	28,559	(2,139)	92.5%	6,630	(323)
8/31/96	20,634	22,039	(1,405)	93.6%	6,076	(231)

Eligible members include volunteer emergency service personnel who are members in good standing of a qualifying fire-fighting unit. Members are vested, beginning with the fifth year of service, at 5% per year of service for the first ten years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times his governing body's average contribution over his years of service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually.

Actuarial valuations are performed biennially. The actuarial valuation for August 31, 2002 was not available for inclusion in the Commission's report. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending August 31, 2002, 2001, and 2000, were $1,817,869, $1,891,628, and $1,469,777, respectively, equal to the required contributions for each year.

TLFFRA, established by statute, is an agent multiple-employer plan. Actuarial valuations are not obtained for plans which are pay-as-you-go and, therefore, are not presented on the Schedule of Funding Progress. It is not cost beneficial to obtain valuations and the TLFFRA assets are less than .5% of the TSESRA and TLFFRA plans combined.

Upon election, a department under TLFFRA can merge with the TSESRA plan. At August 31, 2002 there were 111 plans merged into the TSESRA plan. Benefit determinations for these plans are determined by each local governing board. A member is eligible for retirement service if the member is at least 55 years old and has performed at least 20 years of service that is credited in the retirement system. Monthly benefits payable for service retirement are $100 to a retiree whose service was not exclusively as a volunteer and $25 to a retiree whose service was exclusively as a volunteer. Authority for contributions is established by statute. Members vested under the TLFFRA plan will be paid by the Commission with funds received from the local governing bodies on a pay-as-you-go basis. The liabilities of the TLFFRA pension plan are always equal to the assets and therefore, there is no fund balance.

Contributions are not actuarially determined and the state has no legal obligation for benefit payments. As of August 31, 2002, membership consisted of 746 retirees and beneficiaries.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas, and the Fire Fighter's Pension Commission are:

(1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.

(2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions of the employer (ARC) and the contributions made by the employers in relation to the ARC.

The table on the previous page presents the funding progress for the three most recent actuarial valuations of each plan. The following table presents the three-year trend information regarding annual pension cost and net pension obligation of the plans. The pay-as-you-go plans (JRSI and TLFFRA) are not included in the funding progress or the three-year trend information tables.

Three–Year Trend Information
(In Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System (ERS)			
8/31/01	$ 235,360	119.7%	$ (142,326)
8/31/00	238,784	116.1%	(95,755)
8/31/99	209,684	126.4%	(55,347)
Law Enforcement and Custodial Officer Supplemental Retirement (LECO)			
8/31/01	$ 0	0.0%	$ 0
8/31/00	0	0.0%	0
8/31/99	0	0.0%	0
Judicial Retirement System Plan Two (JRS2)			
8/31/01	$ 6,796	106.8%	$ (1,055)
8/31/00	6,537	109.1%	(593)
8/31/99	6,631	102.9%	0
Teacher Retirement System of Texas (TRS)			
8/31/02	$ 1,431,499	84.0%	$ 230,241
8/31/01	1,142,792	100.0%	0
8/31/00	1,090,716	100.0%	0
Texas Statewide Emergency Services Retirement Act (TSESRA)			
8/31/00	$ 0	0.0%	$ 0
8/31/99	0	0.0%	0
8/31/98	0	0.0%	0

Note 10
Deferred Compensation

The state's deferred compensation plan complies with the Internal Revenue Code Section 457 and is accounted for according to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement establishes accounting and financial reporting standards for Internal Revenue Code Section 457 deferred compensation plans of state and local governments.

The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, all property and rights purchased with those amounts and all income attributed to those amounts, property, or rights are held in trust by the Board of Trustees for the exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense except to defray the reasonable expenses of administering the plan. The state has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

The deferred compensation plan balances are recorded in pension trust funds at fair value. The estimated fair value of the aggregate deferred compensation plan assets was $236 million as of August 31, 2002.

The state also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the state nor does the state have a liability related to this plan.

Note 11
Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state administers four programs which provide health care and life insurance benefits for retired employees, their spouses, and beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers the program for retirees under the jurisdiction of ERS or the Teacher Retirement System (TRS). Retirees with at least 10 years of state service are eligible for health care and life insurance benefits. Public school district retirees are not eligible for this program. Retirees who elected to participate in the Optional Retirement Program are also eligible for these benefits, providing that contributions have not been withdrawn.

For the year ended August 31, 2002, the state contributed the following amounts monthly for health care and life insurance for state employee retirees covered by ERS and TRS: "Retiree Only", $276.02; "Retiree and Spouse",

$433.45; "Retiree and Children", $381.43; and "Retiree and Family", $538.86. Additionally, costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

The University of Texas System and the Texas A&M University System provide separate post-employment health care and life insurance coverages to their retirees, surviving spouses, and beneficiaries.

TRS administers a program which provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles of $1,800 with Part A Medicare and $4,500 without. Funding for free basic coverage is provided based on public school district payroll. The State of Texas and active school employee contribution rates are .50% and .25% of school district payroll, respectively.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Expenditures recognized for fiscal year 2002 for retiree health and life insurance benefits paid for by the state are shown below.

Post Employment Health Care and Life Insurance
(In Thousands)*

Benefits Provided Through:	Number of Retirees	Cost*
Employee Retirement System	60,741	$223,001
University of Texas System	11,388	17,688
Texas A&M University System	5,294	22,246
Teacher Retirement System (Public School District Employees)	147,973	380,271
Total	225,396	$643,206

Note 12
Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34 refers to financial interactions with legally separate entities, i.e., discrete component units and other governments and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or non-current.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as Due From/Due To. Interagency activity occurring within the same fund has been eliminated. Transfers in and out have been netted and presented in the government-wide statement of activities.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

There is no unusual interfund activity for fiscal year 2002. The noncurrent interfund receivables/payables include loans for energy efficiency programs of approximately $15 million. Significant transfers include a $859 million transfer from lottery earnings to the Texas Education Agency for educational programs, a $685 million transfer from the Comptroller to the Economic Stabilization Fund, a $2 billion transfer from the Comptroller to the Highway Fund, and a $696 million transfer from the Comptroller to the Available School Fund. The detail of interfund activity and transactions by fund type and category as of August 31, 2002 is shown below:

Interfund Receivables/Payables per the Fund Statements

(In Thousands)

	Current		Non-Current	
Fund Type	**Interfund Receivables**	**Interfund Payables**	**Interfund Receivables**	**Interfund Payables**
Interfund Receivables/Payables Within the Primary Government				
Governmental Funds				
General Revenue Fund	$ 501	$ 42	$ 14,292	$
State Highway Fund		182		
Nonmajor Governmental Funds		13		5,794
	501	237	14,292	5,794
Proprietary Funds				
Colleges and Universities	40	14		8,498
Nonmajor Enterprise Funds	2	292		
	42	306	0	8,498
Fiduciary Funds				
Pension and other Employee Benefit Trust Funds	1	1		
Private-Purpose Trust Funds				
Agency Funds				
	1	1	0	0
Total Interfund Receivables/Payables Within the Primary Government	$ 544	$ 544	$ 14,292	$ 14,292

Internal Balances per the Government-Wide Financial Statements

(In Thousands)

	Governmental Activities	Business-Type Activities	Total
Non-Current Assets			
Internal Balances-Receivables	$ 8,498	$ (8,498)	$ 0
Current Liabilities			
Internal Balance-Payables	$ 449,008	$ (449,008)	$ 0

Due From/ Due To per the Fund Statements

(In Thousands)

Fund Type	Due From Other Funds	Due From Primary Government	Due From Component Unit	Due To Other Funds	Due To Component Unit
Due From/Due To Within the Primary Government					
Governmental Funds					
General Fund	$ 80,484	$	$	$ 712,703	$ 54
State Highway Fund	185,871			5,611	
Permanent School Fund				1,206	
Nonmajor Governmental Funds	189,238			146,961	11
	455,593	0	0	866,481	65
Proprietary Funds					
Colleges and Universities	443,550			10,071	
Texas Water Development Board Funds				383	
Veterans Land Board Loan Program Funds				332	
Texas Department of Transportation Turnpike Authority Funds	4,600				
Nonmajor Enterprise Funds	28,528			16,620	
Governmental Activities					
Internal Service Fund				1,550	
	476,678	0	0	28,956	0
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	4,875			41,908	
Private-Purpose Trust Funds	6,850			6,378	
Agency Funds	2,271			2,544	
	13,996	0	0	50,830	0
Total Due From/ Due To Within the Primary Government	$ 946,267	$ 0	$ 0	$ 946,267	$ 65
Due From/Due To Outside the Primary Government					
Component Units					
Governmental	$	$ 54	$	$	$ 2,352
	0	54	0	0	2,352
Proprietary		11	2,352		
	0	11	2,352	0	0
Total Due From/Due To Outside the Primary Government	$ 0	$ 65	$ 2,352	$ 0	$ 2,352
Total Due From/Due To			$ 948,684		$ 948,684

Transfers In/Out per the Fund Statements
(In Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Operating Transfers In/Out Within the Primary Government		
Governmental Funds		
General Fund	$ 1,200,403	$ 9,809,238
State Highway Fund	2,086,004	10,638
Permanent School Fund		10,213
Nonmajor Governmental Funds	2,806,884	1,039,836
	6,093,291	10,869,925
Proprietary Funds		
Colleges and Universities	4,351,170	321,842
Texas Water Development Board Funds	4,098	3,191
Veterans Land Board Loan Program Funds		16,586
Nonmajor Enterprise Funds	89,984	932,234
	4,445,252	1,273,853
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds*	1,251,570	28,057
Private-Purpose Trust Funds	413,536	31,814
	1,665,106	59,871
Total Operating Transfers In/Out within the Primary Government	$ 12,203,649	$ 12,203,649

* The Pension Trust Fund Operating Transfers In include both the Transfers In of Contributions and the Operating Transfers In line items.

Transfers In/Out per the Government-Wide Financial Statements
(In Thousands)

Fund Category	Other Funds
Governmental Activities	$ (3,171,399)
Business-Type Activities	$ 3,171,399

Transfers Out to Fiduciary Funds was reclassed to Teacher Retirement Benefits on the Government-wide Statement of Activities

Note 13
Governmental Fund Balances – Reserved, Unreserved/Designated and Unreserved/Undesignated

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at August 31, 2002. This note only ties to the governmental fund financial statements. The government-wide, proprietary and fiduciary restrictions are listed on the face of their statement of net assets.

Governmental Fund Balances - Reserved, Unreserved/Designated, Unreserved/Undesignated

(In Thousands)

Major Funds	
General Revenue Fund - Reserved:	
Encumbrances	$ 1,067,877
Inventories	156,083
Imprest Accounts	4,576
Loans and Contracts	185,962
Non-Current Interfund Receivables	15,597
	$ 1,430,095
General Revenue Fund - Unreserved/Undesignated	$ (369,352)
State Highway Fund - Reserved:	
Encumbrances	$ 176,486
Inventories	67,680
Imprest Accounts	342
Loans and Contracts	230,891
	$ 475,399
State Highway Fund - Unreserved/Designated:	
Transportation	$ 195,925
Permanent School Fund - Reserved:	
Encumbrances	$ 243
Loans and Contracts	1,609
Public School Support	17,271,939
	$17,273,791
Nonmajor Funds	
Special Revenue Funds - Reserved:	
Encumbrances	$ 32,626
Inventories	604
Imprest Accounts	14
Loans and Contracts	747,253
Natural Resources/ Recreation	3,447
	$ 783,944
Special Revenue Funds - Unreserved/Designated:	
General Government	$ 946,744
Regulatory	10,448
Health & Human Services	7,597
Natural Resources/ Recreation	138,716
Education	362,480
Transportation	549
Public Safety & Corrections	6,151
Employee Benefits	674
	$ 1,473,359
Debt Service Funds - Reserved:	
Debt Service	$ 256,945
Capital Projects Funds - Reserved:	
Encumbrances	$ 37,069
Inventories	815
Public Finance Authority Programs	56,040
	$ 93,924
Capital Projects Funds - Unreserved:	
Designated:	
General Government	$ 286
Public Safety & Corrections	4,044
Natural Resources/ Recreation	11,634
	15,964
Undesignated	(2,928)
	$ 13,036
Permanent Funds - Reserved:	
General Government	$ 302,717
Permanent Funds - Unreserved:	
Designated:	
Permanent Health Fund	$ 416,411
Undesignated	12,735
	$ 429,146
All Governmental Funds	
Reserved:	$20,616,815
Unreserved/Designated	2,101,659
Unreserved/Undesignated	(359,545)
Total Fund Balances-Governmental Funds	$22,358,929
Component Units-Governmental	
Reserved:	
Encumbrances	$ 14
Inventories	17
	31
Unreserved/Undesignated	25,540
Total Fund Balance-Governmental Component Units	$ 25,571

Note 14
Adjustments to Fund Balances/ Net Assets

The following tables report how ending fund balances and fund equities in the State of Texas fiscal year 2001 Comprehensive Annual Financial Report were restated and/or converted as beginning fund balances and net assets for reporting under the new fund structure dictated by GASB 34. The most significant changes in fund structure occurring between fiscal year 2001 and 2002 include the following:

- Major funds were identified and separately reported based on criteria specified in GASB 34 and other qualitative factors. In prior years, all funds were reported by fund type, as defined by generally accepted accounting principles, without respect to whether the fund type was significant.
- The Unemployment Trust Fund previously reported as an Expendable Trust Fund is now reported as an Enterprise Fund as required by GASB 34.
- The College and University funds previously reported based on the AICPA Audit Guide model are now reported as a major Enterprise fund.
- Veterans Land Board Loan Program Funds reported as a Special Revenue Fund are now reported as an Enterprise Fund.
- A number of funds reported in Agency funds are reclassified to Governmental or Private Purpose Trust Funds. The ending balance of the Fund Reclassifications column represents the prior year balance of Funds Held for Others of the Agency funds that are reclassified to other fund types.
- The Expendable Trust Funds are eliminated and reclassified to the Special Revenue, Enterprise, Permanent, or Private Purpose Trust Funds. The Nonexpendable Trust Funds are reclassified to the Permanent or Private Purpose Trust Funds.
- Assets previously reported in the General Fixed Asset Account Group are now reported as a reconciling item between the fund financial statements and the government-wide financial statements. Liabilities previously reported in the General Long-Term Debt Account Group are similarly reconciling items; however, since there was no fund balance associated with those liabilities under the previous reporting model, they are not included in the following schedules.

The restatements A through E below relate to accounting changes required by Governmental Accounting Standards Board Statements No. 33, 34, 35, 36, and 37.

A. This restatement shows the infrastructure and other capital assets not previously reported.
B. This restatement reflects the accumulated depreciation not previously reported.
C. This restatement includes changes in capital threshold and other capital related adjustments.
D. This restatement shows long-term liabilities previously reported in the General Long-Term Debt Account Group.
E. The amount of $1,127 million of the restatement relates to tax revenues on the accrual basis of accounting on the government-wide financial statements. This restatement is necessary to convert from the modified accrual to full accrual basis of accounting because availability is not a consideration in recognizing revenue on the accrual basis of accounting.
F. A large portion of this restatement is necessary due to a change of the method in computing taxes receivable. The state restated taxes receivable of $3,055 million, of which $1,928 million was restated to revenue and $1,127 million was restated to deferred revenues which were not available on the modified accrual basis of accounting to finance transactions during the prior fiscal year. This amount was restated as revenue in the preceding restatement E for the government-wide financial statements.
G. This restatement is necessary to correct an accounting error in the prior period in the Textbook fund that resulted in the understatement of accrued expenditures. Liabilities were recorded in the prior period for the amount due to publishers for the textbooks received before year end, but no expenditures were accrued.
H. Texas Workers' Compensation Insurance Fund is no longer part of the State of Texas reporting entity.

I. This restatement relates to other capital assets adjustments necessary to correct beginning balances to ensure balances were accurate before depreciation expense was calculated and recorded statewide.

J. These are miscellaneous restatements and other changes necessary to correct for accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures.

Restatements to Fund Balance/Net Assets

(In Thousands)

	August 31, 2001 As Previously Reported	Fund Type Reclassifications	Subtotal	Restatements	August 31, 2001 As Restated
Governmental Funds and Government-Wide Activities					
Major Funds:					
General Revenue Fund	$ 2,618,428	$ 774,926	$ 3,393,354	$ 1,773,892	$ 5,167,246
State Highway Fund - Previously Reported as Special Revenue		441,985	441,985	182,038	624,023
Permanent School Fund-Previously Reported as Nonexpendable Trust		19,092,079	19,092,079	(316)	19,091,763
Non-Major Funds:					
Special Revenue Funds	5,001,002	(3,387,531)	1,613,471	(247,495)	1,365,976
Debt Service Funds	286,039		286,039		286,039
Capital Project Funds	136,785		136,785	(69)	136,716
Permanent Funds		806,032	806,032	(449)	805,583
Total Nonmajor Funds	5,423,826	(2,581,499)	2,842,327	(248,013)	2,594,314
Total Governmental Funds	8,042,254	17,727,491	25,769,745	1,707,601	27,477,346
Adoption of GASB Statements 33 and 34					
Revenue Recognition				1,154,888	1,154,888
Capital Assets		8,068,747	8,068,747	50,394,565	58,463,312
Accumulated Depreciation				(9,425,941)	(9,425,941)
Long-Term Bonds and Notes Payable				(4,033,891)	(4,033,891)
Other Long-Term Liabilities				(713,715)	(713,715)
Expense Recognition					
Internal Service Fund - Governmental Activities		18,308	18,308	(7)	18,301
Total Adaptation of GASB Statements 33 and 34	0	8,087,055	8,087,055	37,375,899	45,462,954
Total Governmental Funds and Government-Wide Activities	8,042,254	25,814,546	33,856,800	39,083,500	72,940,300
Proprietary Funds and Business-Type Activities					
Major Funds:					
Colleges and Universities-Previously Reported AICPA College and University Financial Reporting Model		31,498,979	31,498,979	(8,274,087)	23,224,892
Texas Water Development Board Funds - Previously Reported as Enterpise		1,272,559	1,272,559	7,658	1,280,217
Veteran Land Board Loan Program Funds-. Previously Reported as Special Revenue		2,512,353	2,512,353	(1,903,708)	608,645
Nonmajor Enterprise Funds	1,430,470	(472,281)	958,189	75,226	1,033,415
Internal Service Fund - Governmental Activities	18,308	(18,308)			
Total Proprietary Funds and Business-Type Activities	1,448,778	34,793,302	36,242,080	(10,094,911)	26,147,169

Concluded on the following page

Restatements to Fund Balance/Net Assets (concluded)

(In Thousands)

	August 31, 2001 As Previously Reported	Fund Type Reclassifications	Subtotal	Restatements	August 31, 2001 As Restated
Fiduciary Funds					
Pension and Other Employee Benefit Trust Funds	$ 98,252,372	$ 300,792	$ 98,553,164	$ (1,835)	$ 98,551,329
External Investment Trust	11,449,480		11,449,480	(151,847)	11,297,633
Private-Purpose Trust		1,448,639	1,448,639	(922)	1,447,717
Funds Previously Reported as Expendable Trust Funds	1,423,182	(1,423,182)			
Funds Previously Reported as Nonexpendable Trust Funds	20,847,951	(20,847,951)			
Total Fiduciary Funds	131,972,985	(20,521,702)	111,451,283	(154,604)	111,296,679
Colleges and Universities					
Colleges and Universities - Previously Reported AICPA College and University Financial Reporting Model	31,498,979	(31,498,979)	0	0	0
Account Groups					
General Fixed Assets	8,112,186	(8,112,186)			
Total Account Groups	8,112,186	(8,112,186)	0	0	0
Total Primary Government	181,075,182	474,981	181,550,163	28,833,985	210,384,148
Discretely Presented Component Units	849,101		849,101	(752,140)	96,961
Total Reporting Entity	$ 181,924,283	$ 474,981	$ 182,399,264	$ 28,081,845	$ 210,481,109

Restatements by Activity

(In Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total Restatements
A.	$ 51,339,712	$ 6,595	$	$ 60	$ 51,346,367
B.	(9,425,941)	(6,846,873)	(104)	(7,971)	(16,280,889)
C.	(941,439)	(1,288,498)	(2,164)	(53)	(2,232,154)
D.	(4,747,606)	(1,892,782)	4	(799)	(6,641,183)
E.	1,154,888	(39,681)	(19)	(20)	1,115,168
F.	1,927,917				1,927,917
G.	(305,504)				(305,504)
H.				(742,223)	(742,223)
I.	(3,715)	21,603		(763)	17,125
J.	85,188	(55,275)	(152,321)	(371)	(122,779)
Total Restatements	$ 39,083,500	$ (10,094,911)	$ (154,604)	$ (752,140)	$ 28,081,845

Note 15
Contingent Liabilities

The state has been named as defendant in routine legal proceeding, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosures.

Protested Tax Payments

As of August 31, 2002, the state held protested tax payments of $71,126,107.16, the majority of which were held by the State Comptroller. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes, and various other fees under protest. In addition, plantiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use, and oil and gas production taxes totaling $389,021,394. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling $715,440,254 have been filed which may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims which may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of $389,802,352 from litigation and contractual claims. The Department of Protective and Regulatory Services is potentially impacted from civil rights, discrimination, and tort claims of $176,287,500.

A potential liability of $100 million in the Health and Human Services area also exists regarding the Community Based Care Program.

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds, and from federal drawdowns.

The Texas Water Development Board has loan commitments totaling $899,830,338 as of August 31, 2002.

Federal Assistance

The state also receives federal financial assistance, which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue, and therefore limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Guaranteed Debt

At August 31, 2002, $25,950,594,344 in debt had been guaranteed by the Permanent School Fund for 1,756 outstanding bond issues in 703 school districts in the state. Under state statute, payments by the Permanent School Fund on such guarantees are recoverable from the State of Texas. The $26 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds which have been refunded and released from the Bond Guarantee Program.

Partnerships

The University of Texas System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to $920,620,965 as of August 31, 2002.

Note 16
Subsequent Events

Primary Government

State agencies and universities have issued, or have been authorized to issue, over $2,398 million in new bonds and commercial paper and over $418 million in refunding bonds since August 31, 2002. This routine activity finances state facilities, housing assistance programs, educational loans, and refunds outstanding debt. Bond proceeds of $80 million are expected to be issued in fiscal year 2003 from Texas Public Financing Authority general obligation bonds for the repair or rehabilitation of buildings and facilities and the expansion of the Western Regional Medical Facility.

In September 2002, the Veterans' Land Board entered into several forward-starting amortizing floating-to-fixed interest rate swaps. This will lock in currently available present value savings on over $237 million current outstanding bond issues that become callable from 2002 through 2006.

Component Unit

The Texas State Affordable Housing Corporation has re-issued over $4 million in Single Family Mortgage Revenue Bonds since August 31, 2002 for the primary purpose of refunding and remarketing the Corporation Single Family Mortgage Revenue Bonds Series 2002 variable rate bonds to long-term, fixed rate bonds. Effective September 1, 2001, the 77th Texas Legislature amended the Corporation's mission to include the creation of the Teachers Home Loan Program. The proceeds from the sale of bonds are used to originate single-family mortgage loans exclusively for eligible teachers in Texas.

Note 17
Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

The Texas Employees Uniform Group Insurance Program (UGIP) provides health, life, accidental death and dismemberment (AD&D), disability, and dental insurance coverage to state and higher education employees, retirees, and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization (HMO) contracts. Effective September 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The UGIP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payments of premiums. The life, AD&D, and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. The ERS approved two dental plans for fiscal year

2002, a dental health maintenance organization (DHMO) administered by Aetna/Prudential DMO, Inc. and a dental indemnity plan underwritten by CIGNA Dental. The DHMO is fully insured with all risk transferred to Aetna/Prudential DMO. Beginning September 1, 1997 the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System will administer this program. Enrollment commences in September 2002. This new plan begins September 1, 2002 and will include employees of most small to mid-size districts, charter schools, education service centers and certain other employers. A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health, and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends, and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the General Fund (reported on the government-wide statement), Enterprise Funds, and Internal Service Fund during fiscal years ending August 31, 2001 and August 31, 2002:

Changes in Claims Liability Balances
For the Years Ending August 31, 2001 and August 31, 2002 (In Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2002	$2,266,788	$2,038,989	$2,087,593	$ 2,218,184
2001	$2,010,385	$1,602,252	$1,345,849	$ 2,266,788

Note 18
Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectibility of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of August 31, 2002, the redetermination hearings process had an estimated amount of $511 million.

Note 19
Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. However, most component units are discretely presented. The component units are reported for the year ended August 31, 2002 unless indicated otherwise. The component units of the state are as follows:

Blended Component Units

Component units are blended (reported as part of the primary government) if the unit's governing body is substantively the same as the primary government and/or the component unit provides substantially all of its services directly to the state. The descriptions for the following blended component units are presented for information purposes of interested

parties. The component unit's financial data is reported as Special Revenue Funds in the Other Special Revenue Funds column in the state's financial statements.

The **Parks and Wildlife Foundation of Texas, Inc.** (Foundation) is a legally separate not-for-profit corporation created to assist the Texas Parks and Wildlife Department in carrying out its authorized purposes as set forth in the Texas Parks and Wildlife Code. The Chairman of the Texas Parks and Wildlife Department appoints the majority of trustees that govern the Foundation. Because the Foundation provides services solely to the Department, their financial data is blended with the state. Separate financial statements may be obtained by contacting the Foundation at P.O. Box 15097, Dallas, Texas 75201.

Texas Transportation Corporations were created to assist the State of Texas and the State Highway and Public Transportation Commission in promoting and developing new and expanded transportation facilities. The corporations are legally separate, however, the Texas Department of Transportation exercises sufficient authority over assets, operations, and management. Complete financial information for Grand Parkway Association (currently, the only transportation corporation that has any material assets or other activities) may be obtained by contacting the Association at 4544 Post Oak Place, Suite 222, Houston, Texas 77027.

Friends of the Texas Historical Commission, Inc. is a legally separate entity created to assist in carrying out the authorized purposes of the Texas Historical Commission (Commission). The Friends of the Texas Historical Commission is not financially accountable to the state, but has a relationship with the state such that exclusion would cause the financial statements to be misleading. The Commission appoints eight of the nine board members that govern the Friends of the Texas Historical Commission. The board selects one member. Substantially all entity services benefit the Commission. Separate financial statements may be obtained by contacting the Commission at P.O. Box 12276, Austin, Texas 78711-2276.

Special Purpose Corporations are established for the purpose of holding title to property acquired through foreclosure or deed in lieu of foreclosure to protect the Teacher Retirement System's (System) investments. These corporations remit the profits from the management and sale of the property to the System. Corporate directors are subject to appointment and removal by the Board of Trustees. Since these corporations serve solely the interest of the System, their financial transactions are blended into the state's financial statements. Separate financial statements may be obtained by contacting the Teachers Retirement System's Communication Department at 1000 Red River Street, Austin, Texas 78701-2698.

The Texas Treasury Safekeeping Trust Company (Company) was created in 1986 by the 69th Legislature to provide a separate legal entity for the State Treasurer. The incorporation of the trust company was necessary to obtain direct access to services provided by the Federal Reserve System, namely wire and custody services. The Company's organizational structure was changed by TEX. GOV'T CODE ANN. §§ 404.101, 404.103 – 404.116, making the company a blended component unit for reporting purposes. Separate financial statements may be obtained by contacting the Company at Rusk State Office Bldg, 208 East 10th Street, Austin, TX 78701.

Colleges and Universities

Foundations of Colleges & Universities are legally separate organizations that have been included in the financial statements due to board appointment and fiscal accountability with the university. These foundations are listed with the university with which they are associated. The financial data of these components can be obtained through the universities noted.

Midwestern State University
Separate financial statements are not prepared.

MSU Charitable Trust

Texas A&M University System
Separate financial statements may be obtained as noted:

Texas A&M Research Foundation
3578 Texas A&M University System
College Station, Texas 77843

The Stiles Farm Foundation
P.O. Box 405
Thrall, Texas 76578

The Heep Foundation
P.O. Box 4884
Bryan, Texas 77805

The Ardella Helm Estate
Texas A&M University System
301 Tarrow, John B. Connally Building, 6th Floor
College Station, Texas 77843

The University of Texas System
Separate financial statements may be obtained at the following addresses.

Law Publications, Inc.
Separate financial statements are not prepared.

University Care Plus, Inc.
P.O. Box 20627
Houston, Texas 77225

Continuing Legal Education, Inc.
Separate financial statements are not prepared.

U.T. Southwestern Health Systems, Inc.
1301 Elmbrook
Dallas, Texas 75390

East Texas Quality Care Network, Inc.
P.O. Box 6053
Tyler, Texas 75711-6053

U.T.M.B. Healthcare Systems, Inc.
301 University Boulevard
Galveston, TX 77555

M. D. Anderson Physician's Network, Inc.
7505 S. Main, Suite 500
Houston, Texas 77030

University Physician's Group, Inc.
7410 John Smith Drive, Suite 10
San Antonio, Texas, 78229

The University of Texas Investment Management Company
221 West 6th Street, Suite 1700
Austin, Texas 78701

The National Pediatric Infectious Diseases Foundation
4712 Wildwood Drive
Dallas, TX 75209

Texas Tech University
Separate financial statements are not prepared.

Texas Tech University Foundation, Inc.

Texas Tech University Research Foundation
(Currently Inactive)

Texas Tech Physician Associates

Texas State Technical College
Separate financial statements are not prepared.

TSTC Regents Circle

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the Component Units column of the state's financial statements.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The State of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2002. Separate financial statements may be obtained by contacting the State Bar of Texas at P.O. Box 12487, Austin, Texas 78710.

Texas Guaranteed Student Loan Corporation (Corporation) is a public non-profit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the Governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of $1.5 million to fund initial startup operations. The Corporation is reported for the year ended September 30, 2001. Separate financial statements may be obtained by contacting the Texas Guaranteed Student Loan Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Non-Profit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income residents of Texas. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 50264, Austin, Texas 78763-0264.

Texas Appraiser Licensing and Certification Board (Board) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The Governor appoints the members of the Board. TREC provides administrative support to the Board, but has no authority to approve or modify the Board's budget or to set their fees. Although the Board is not fiscally dependent on TREC, to exclude them would result in presentation of incomplete financial statements. The Board serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Surplus Lines Stamping Office of Texas (Office) is a non-profit corporation created by the Texas Legislature to assist the Texas Department of Insurance in the regulation of surplus lines insurance. The Commissioner of Insurance appoints the board. The Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Office. The Department of Insurance sets the fee amount to be assessed to the agents. The Office is reported for the year ended December 31, 2001. Separate financial statements may be obtained at P.O. Box 9906, Austin, Texas 78766-9906.

The Texas Health Insurance Risk Pool was created to provide access to quality health care at a minimum cost to the public, to relieve the insurable population of the disruptive cost of sharing coverage, and to maximize reliance on strategies of managed care proven by the private sector. The Board of Directors, composed of nine members, is appointed by the Insurance Commissioner. Financial statements may be obtained at 2512 South IH 35, Suite 110, Austin, Texas 78704.

The Texas Health Reinsurance System reinsures risks covered under the health benefit plans of small employers' insurance carriers. The Insurance Commissioner appoints the nine-member board. Financial statements may be obtained at 100 Great Meadow Rd., Suite 112, Weathersfield, Connecticut 06109.

The Texas Economic Development Corporation (Corporation), a nonprofit corporation, was created to assist, promote, develop, and advance economic development in

the State of Texas. The Corporation is not fiscally dependent on the Texas Economic Development (TxED); however, it would be misleading to exclude them from the primary government's financial statements. TxED's Governing Board members serve as the directors of the Corporation. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Texas Economic Development at P.O. Box 12728, Austin, Texas 78711-2728.

Texas Small Business Industrial Development Corporation (Corporation) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the State of Texas. TxED is the oversight agency for the Corporation and is its reporting entity. TxED's Governing Board members serve ex officio as the directors of the Corporation. The Corporation's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Texas Economic Development at P.O. Box 12728, Austin, Texas 78711-2728.

Texas Agricultural Finance Authority (Authority) is a legally separate entity within the Department of Agriculture and is financially accountable to the state. The Governor with the advice and consent of the Senate appoints seven of the nine members of the Board of Directors. The Commissioner of Agriculture administers the Authority with the assistance of the Board. The Authority was created to provide financial assistance for the expansion, development, and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. Separate financial statements may be obtained by contacting the Texas Department of Agriculture at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Boll Weevil Eradication Foundation, Inc. (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the Texas Department of Agriculture (TDA), and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees, and debt. The Foundation is reported for the year ended December 31, 2001. Separate financial statements may be obtained by contacting the Texas Department of Agriculture at P.O. Box 12847, Austin, Texas 78711-2847.

The Texas Water Resources Finance Authority (Authority) was created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A Board of Directors composed of the six members of the Texas Water Development Board governs the Authority. The Board, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting the Texas Water Development Board at P.O. Box 13231, Austin, Texas 78711-3231.

M.D. Anderson Cancer Center Services Corporation (Corporation) is governed by a body appointed by the president of University of Texas M. D. Anderson Cancer Center. The Corporation's mission is to benefit the Cancer Center by providing, directly or indirectly, assistance and benefits, financial or otherwise, to the Cancer Center through whatever means determined by the Board of Directors, including, but not limited to, making distributions or providing services. In accomplishment of such purposes, the Corporation emphasizes clinical, educational, and scientific aspects of cancer care throughout the United States and in foreign countries. Separate financial statements may be obtained by contacting the Corporation at 811 Dallas Avenue, Houston, Texas 77002.

The Texas Universities Health Plan, Inc. (TUHP) is governed by a body appointed by the University of Texas System. TUHP is a non-profit corporation organized and administered for the purpose of assisting and acting on behalf of the University of Texas System in establishing and operating a health maintenance organization. The TUHP is reported for the year ended December 31, 2001. Separate financial statements may be obtained by contacting TUHP's administrative office at 701 Brazos Street, Suite 470, Austin, Texas 78701.

The University of Texas Southwestern Moncrief Cancer Center (Center) is a nonprofit corporation governed by a three-member board appointed by the President of the University of Texas Southwestern Medical Center. The Cen-

ter exists for charitable, educational, and scientific purposes, and provides radiation oncology treatment services at three facilities. The System may establish, own and operate one or more cancer therapy centers, or enter into arrangements with other providers of cancer care. Separate financial statements may be obtained by contacting the Center at 1450 Eighth Avenue, Fort Worth, Texas 76104.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member who is appointed by the Governor. Separate financial statements may be obtained by contacting the State Comptroller of Public Accounts, Texas Tomorrow Fund at 111 E. 17th Street, Austin, Texas 78774.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, however, the state is not financially accountable for the entity.

The Life, Accident, Health, and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident, and health insurance policies and annuity contracts because of the impairment or insolvency of the member insurer that issued the policies or contracts. The Commissioner of the Texas Department of Insurance appoints a board of directors of the Association consisting of nine members.

The Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims", as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in this state. The nine-member Board of Directors is appointed by the Commissioner of the Texas Department of Insurance.

Texas Mutual Insurance Company (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the State of Texas, and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state but the state appoints a voting majority of the Company's board.

Note 20
Deficit Fund Balance/Net Assets

A. Primary Government

Governmental Funds

The Texas Department of Mental Health and Mental Retardation Facility Project Funds, a nonmajor capital project fund, reported a deficit Fund Balance Unreserved Undesignated of $3,274,728 due to the Lone Star Fund. The Lone Star Fund receives advances from the Comptroller for reimbursement for energy conservation projects. Anticipated future cost savings from these projects will generate repayment to the Comptroller of Texas.

Proprietary Funds

The Texas Prepaid Higher Education Tuition Board, nonmajor enterprise fund, reported a deficit Unrestricted Net Assets of $156,409,414. This deficit was caused by the severe downturn of the stock market and a larger than expected average tuition increase this year. This year's tuition increase is expected to return to its recent annual average, in turn lowering the projected actuarial deficit. Both the agency's actuary and investments counsel agree that given the long-term nature of the program, this deficit should be eliminated in the future as investment earnings improve.

The Texas Building and Procurement Commission, a other nonmajor enterprise fund, reported a deficit Unrestricted Net Assets of $297,893. This deficit was

caused by a correction in the treatment of freight paid on federal surplus property held for donees. Previously, this expense had been reported as deferred charges in the Annual Financial Report. Freight expense is an actual expenditure that may or may not be recovered when federal surplus property is passed on to the donee. All fiscal year 2002 freight was expensed as incurred.

B. Discretely Presented Component Units

The Texas Boll Weevil Eradication Foundation, Inc., a proprietary component unit of the Texas Agricultural Finance Authority, reported a deficit Unrestricted Net Assets of $117,066,980. The practice of incurring debt during the early years of a program resulted in a decrease in unrestricted net assets on the Statement of Revenues, Expenditures, and Changes in Net Assets and an unrestricted deficit on the Statement of Net Assets. Although this "loss" was incurred during both this accounting period and prior years, management expects the gains in net assets in future years to offset the losses.

The Texas Agricultural Finance Authority (TAFA), an other proprietary component unit of the Texas Department of Agriculture, reported a deficit Unrestricted Net Assets of $9,589,410. The deficit is a result of an allowance for uncollectible accounts in prior years in the TAFA loan program. To reduce the risk of future allowances, the authority board has made lending criteria more stringent and will strictly adhere to the established policies and procedures. The 76th Legislature adopted legislation that allows a larger pool of eligible borrowers into the financial assistance program. With the current performing commitments and the approved expansion, the program has the ability to provide earnings for future uncollectible allowances, and offset the current deficit in the loan program.

Note 21
Tobacco Settlement

The State of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the State. Estimates made at the time of the agreement projected that these payments could total $15 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation and any other court-ordered factors. Therefore, the state does not record a receivable for the future annual payments. Actual tobacco settlement revenues received in fiscal year 2001 were $379,401,898 and $493,591,186 in fiscal year 2002. Cumulative actual tobacco settlement revenues received as of fiscal year 2002 were $2,265,166,720.

Note 22
Donor-Restricted Endowments

The State of Texas has donor-restricted endowments with net appreciation of $82.5 million on investments which are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the Donor-Restricted Endowments Schedule. True endowments are those funds that must be maintained inviolate and in perpetuity. Term endowments are similar to true endowments except that, upon the passage of a stated period of time, the principal may be expended. Expendable funds are those funds that may be expended for either a

Donor-Restricted Endowments
(In Thousands)

Donor-Restricted Endowments	Amounts of Net Appreciation*	Reported in Net Assets
True Endowments	$ 357	Restricted for Nonexpendable
True Endowments	80,425	Restricted for Expendable
Term Endowments	1,710	Restricted for Expendable
	$ 82,492	

* There was a negative fair value adjustment totaling ($44,158) not included in the figures above for Fiscal Year 2002.

stated purpose (restricted) or for general a purpose (unrestricted) as per the endowment gift terms. Non-expendable funds may not be expended. The policies of each individual state agency govern the authorizing and spending of net appreciation on investments; there is no state law that governs endowment spending. Most state agencies have a target distribution rate per unit of spendable income between 3 to 6 percent of the average market value of the endowment fund for the preceding 12 quarters.

Note 23
Extraordinary Items

The state reports extraordinary items of $603.7 million in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The Texas Workforce Commission Unemployment Trust Fund Accounts, a non-major Enterprise Fund, reports $596.4 million extraordinary items due to the distribution from the Federal Economic Security Recovery Act. In March 2002, the federal government implemented the Job Creation and Worker Assistance Act of 2002, which provides Texas financial aid to help pay unemployment benefits.

The Texas Water Development Board, a major Enterprise Fund, reports $18.3 million extraordinary items due to the gain in exchange for the ownership interest in the Palmetto Bend Dam and Reservoir Project to Lavaca Navidad River Authority.

The University of Texas System, presented in the Colleges and Universities, a major Enterprise Fund, reports net expenses of $13.6 million due to Tropical Storm Allison. Several university systems received reimbursements totaling $2.6 million for flood damage and other damages caused by Tropical Storm Allison.

Required Supplementary Information Other than MD&A

Fort Worth

Fort Worth
1920

State of Texas
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$26,559,115	$26,559,115	$26,160,487	$ 398,628
Federal	14,094,533	15,699,165	15,447,202	251,963
Licenses, Fees and Permits	1,849,278	2,245,600	1,599,502	646,098
Interest and Other Investment Income	394,628	395,848	346,703	49,145
Land Income	2,394	2,681	8,729	(6,048)
Settlement of Claims	477,218	478,569	506,121	(27,552)
Sales of Goods and Services	546,167	676,291	723,339	(47,048)
Other	1,609,730	1,893,617	1,210,628	682,989
Total Revenues	45,533,063	47,950,886	46,002,711	1,948,175
EXPENDITURES				
General Government	2,121,970	2,122,187	1,517,538	604,649
Education	14,098,409	14,790,261	14,213,022	577,239
Employee Benefits	684	666	769	(103)
Health & Human Services	19,483,908	21,952,425	19,339,168	2,613,257
Public Safety and Corrections	3,533,711	3,976,260	3,576,263	399,997
Transportation	39,748	39,782	29,859	9,923
Natural Resources & Recreational Services	1,021,502	1,063,750	745,674	318,076
Regulatory Agencies	265,441	272,197	266,564	5,633
Total Expenditures	40,565,373	44,217,528	39,688,857	4,528,671
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,967,690	3,733,358	6,313,854	(2,580,496)
Other Financing Sources (Uses)				
Transfer In	1,879,677	2,280,148	1,200,403	1,079,745
Transfer Out	(8,865,964)	(8,936,455)	(9,809,238)	872,783
Sale of Capital Assets	3,403	4,350	10,066	(5,716)
Available Beginning Balance	4,426,934	4,426,934	4,750,767	(323,833)
Total Other Financing Sources (Uses)	(2,555,950)	(2,225,023)	(3,848,002)	1,622,979
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 2,411,740	$ 1,508,335	$ 2,465,852	$ (957,517)

State of Texas
Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 30,168	$ 30,168	$ 30,168	$
Federal	2,143,217	2,157,643	2,542,906	(385,263)
Licenses, Fees and Permits	802,879	805,261	828,012	(22,751)
Interest and Other Investment Income	9,982	9,982	27,335	(17,353)
Land Income	1,329	1,329	1,529	(200)
Settlement of Claims	4,952	5,343	5,544	(201)
Sales of Goods and Services	140,755	144,949	170,097	(25,148)
Other	3,743	6,049	6,223	(174)
Total Revenues	3,137,025	3,160,724	3,611,814	(451,090)
EXPENDITURES				
General Government	8,709	9,304	11,274	(1,970)
Public Safety and Corrections	363,748	379,947	376,798	3,149
Transportation (08)	5,260,322	5,299,481	5,086,880	212,601
Total Expenditures	5,632,779	5,688,732	5,474,952	213,780
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,495,754)	(2,528,008)	(1,863,138)	(664,870)
Other Financing Sources (Uses)				
Transfer In	2,071,440	2,071,651	2,086,004	(14,353)
Transfer Out			(10,638)	10,638
Sale of Capital Assets	11,212	23,809	69,449	(45,640)
Available Beginning Balance	287,045	287,045	24,732	262,313
Total Other Financing Sources (Uses)	2,369,697	2,382,505	2,169,547	212,958
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ (126,057)	$ (145,503)	$ 306,409	$ (451,912)

Note to Required Supplementary Information – Budgetary Comparison Schedule

The Budgetary Comparasion Schedule presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis
August 31, 2002 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	$ 2,465,852	$ 306,409
Basis of Accounting Differences:		
Receivables and Deferred Revenues	(601,600)	(243,839)
Payables	(1,070,455)	9,490
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Source	(4,750,767)	(24,732)
Federal Program Revenues Not Budgeted	2,363,305	
Federal Program Expenditures Not Budgeted	(2,363,305)	
Other Revenues Not Budgeted	146,695	
Other Expenditures Not Budgeted	(296,599)	(27)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	371	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	$(4,106,503)	$ 47,301

The major reconciling items between the Budgetary Comparison Schedule Actual and the GAAP Financial Statements are due to the following:

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP Financial Statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the Disproportionate Share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as Other Financing Sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as Financing Sources on the GAAP Financial Statements.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budget Comparison Schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

- General Fund – The variance of $103 thousand exists due to agencies paying expenditures authorized by the Legislature, but not included in the final budget column.

- State Highway Fund – The majority of the variance of $2 million is the result of increased expenditures by the Office of the Attorney General which in fiscal year 2002 operated out of prior year appropriations.

Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, the State has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the State:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the State has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10% of the Interstate system and 5% of the Non-Interstate system (US, State, and FM roadways). For each section of highway observed, twenty-one elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20%, 2=40%, 3=60%, 4=80%, 5=100%).

Assessed Conditions

The Commission has adopted a minimum condition level of 80% for the Interstate system and 75% for the Non-Interstate system.

For the current year and the prior year, the results of the condition assessments are as follows:

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)
2002	82.5%	78.7%
2001	85.0%	78.3%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures. Since GASB 34 only became effective for fiscal year 2002, no prior year estimates are available. However, the actual maintenance expenditures are presented for comparison.

Maintenance Cost
(In Thousands)

	2002	2001
Interstate Highways		
Estimate	$ 210,000	N/A
Actual	$ 386,032	$ 283,502
Other Highways		
Estimate	$1,444,000	N/A
Actual	$1,489,744	$1,292,071

Factors Affecting Condition Assessments

Although TxDOT has adopted condition levels for the highway system, this process is new and represents a different approach to maintaining the highway system. (As time progresses, TxDOT hopes to achieve a greater correlation between the estimated and actual maintenance expenditures needed to maintain the highway system at or above the adopted condition levels.)

In reviewing the condition assessments, it is also necessary to consider the effects of other factors such as increases in traffic, legislative mandates, and environmental effects (rainfall, drought, freeze, thaw, etc) which may have a major impact on needed funds and the condition of Texas roads.

Other Supplementary Information

El Paso

El Paso
1903

Combining Financial Statements

DFW Airport

Dallas 1910

Governmental Funds

Houston
1949

Houston
Fire
1912

State of Texas
Combining Balance Sheet – Nonmajor Governmental Funds
August 31, 2002 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$1,206,516	$ 204,533	$ 120,921	$ 727	$1,532,697
Investments	46,554	5,242		75,703	127,499
Restricted Cash and Cash Equivalents		1,443			1,443
Receivables:					
Federal	986		88		1,074
Accounts	2,409		15		2,424
Interest and Dividends	175,163	1,816	29	3,924	180,932
Due From Other Funds	136,688	100	52,450		189,238
Inventories	604		815		1,419
Loans and Contracts	98,776				98,776
Other Current Assets	59				59
Total Current Assets	1,667,755	213,134	174,318	80,354	2,135,561
Non-Current Assets:					
Investments	7,174	103,615		653,471	764,260
Restricted:					
Receivables	126,222				126,222
Loans and Contracts	532,431				532,431
Loans and Contracts	116,046				116,046
Other Non-Current Assets	8,015				8,015
Total Non-Current Assets	789,888	103,615	0	653,471	1,546,974
Total Assets	$2,457,643	$ 316,749	$ 174,318	$ 733,825	$3,682,535
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	$ 82,263	$ 4	$ 8,945	$ 1,962	$ 93,174
Payroll	12,234		22		12,256
Federal	167				167
Other	57		4,530		4,587
Deferred Revenues	64,672				64,672
Due To Other Funds	39,094	59,800	48,067		146,961
Due To Component Units	11				11
Interfund Payable	13				13
Total Current Liabilities	198,511	59,804	61,564	1,962	321,841
Non-Current Liabilities:					
Interfund Payable			5,794		5,794
Other Non-Current Liabilities	1,829				1,829
Total Non-Current Liabilities	1,829	0	5,794	0	7,623
Total Liabilities	200,340	59,804	67,358	1,962	329,464
Fund Balances:					
Reserved	783,944	256,945	93,924	302,717	1,437,530
Unreserved	1,473,359		13,036	429,146	1,915,541
Total Fund Balances	2,257,303	256,945	106,960	731,863	3,353,071
Total Liabilities and Fund Balances	$2,457,643	$ 316,749	$ 174,318	$ 733,825	$3,682,535

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –Nonmajor Governmental Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Federal	$ 19,657	$ 1,287	$ 11,624	$	$ 32,568
Licenses, Fees & Permits	42,122				42,122
Interest and Other Investment Income (Loss)	837,624	20,337	4,368	(79,658)	782,671
Land Income	7,396				7,396
Settlement of Claims	300		481		781
Sales of Goods and Services	3,739		495		4,234
Other	14,920		247	253	15,420
Total Revenues	925,758	21,624	17,215	(79,405)	885,192
EXPENDITURES					
Current:					
General Government	66,752	170	4,573	3,821	75,316
Education	1,281,948	17	230		1,282,195
Employee Benefits	13,966				13,966
Health and Human Services	15,928				15,928
Public Safety and Corrections	83,704		18,412		102,116
Transportation	2,330				2,330
Natural Resources & Recreational Services	38,960		2,768		41,728
Regulatory Agencies	6,957				6,957
Capital Outlay	4,626		111,656		116,282
Debt Service:					
Principal		281,002			281,002
Interest		187,604			187,604
Total Expenditures	1,515,171	468,793	137,639	3,821	2,125,424
(Deficiency) of Revenues (Under) Expenditures	(589,413)	(447,169)	(120,424)	(83,226)	(1,240,232)
OTHER FINANCING SOURCES (USES)					
Transfer In	2,195,683	490,055	82,618	38,528	2,806,884
Transfer Out	(850,279)	(72,176)	(88,359)	(29,022)	(1,039,836)
Bonds and Notes Issued	135,321	196	96,409		231,926
Bond Proceeds for Advance Refunding		8,124			8,124
Payments to Escrow for Advance Refunding		(8,124)			(8,124)
Sale of Capital Assets	15				15
Total Other Financing Sources	1,480,740	418,075	90,668	9,506	1,998,989
Change in Fund Balances	891,327	(29,094)	(29,756)	(73,720)	758,757
Fund Balances, September 1, 2001	1,613,471	286,039	136,785	806,032	2,842,327
Restatements	(247,495)		(69)	(449)	(248,013)
Fund Balances, September 1, 2001, as Restated	1,365,976	286,039	136,716	805,583	2,594,314
Fund Balances, August 31, 2002	$2,257,303	$ 256,945	$ 106,960	$ 731,863	$3,353,071

Nonmajor Special Revenue Funds

The **Economic Stabilization Fund** receives one-half of any unencumbered positive balance in the General Revenue Fund on the last day of the preceding biennium and an amount equal to 75 percent of excess of oil and gas production taxes received greater than the excess of oil and gas production taxes received in fiscal year 1987 and any other money appropriated to the fund by the legislature. The fund may be used to eliminate temporary cash deficiency in the General Revenue Fund, or may be appropriated for any purpose by two-thirds vote of the legislature.

The **Student Loan Funds** receive proceeds from the issuance of bonds that are used to make loans to qualifying students who have been admitted to attend any institution of higher education within the State of Texas.

The **Available School Fund** receives earnings of the Permanent School Fund and allocations of motor fuel taxes to support public schools.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development Bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The fund also receives gifts or grants for the purpose of assisting economically distressed areas. Money in the fund is invested.

State of Texas
Combining Balance Sheet – Nonmajor Special Revenue Funds
August 31, 2002 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Available School Fund	Water Development Funds	Other Nonmajor Special Revenue Funds*	Totals
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 903,936	$ 49,233	$ 18,110	$ 92,328	$ 142,909	$1,206,516
Investments					46,554	46,554
Receivables:						
Federal		918			68	986
Accounts					2,409	2,409
Interest and Dividends	2,117	24,658	147,838	377	173	175,163
Due From Other Funds		59,800	62,928		13,960	136,688
Inventories					604	604
Loans and Contracts		96,868		758	1,150	98,776
Other Current Assets					59	59
Total Current Assets	906,053	231,477	228,876	93,463	207,886	1,667,755
Non-Current Assets:						
Investments					7,174	7,174
Restricted:						
Receivables		126,222				126,222
Loans and Contracts		532,431				532,431
Loans and Contracts				98,596	17,450	116,046
Other Non-Current Assets					8,015	8,015
Total Non-Current Assets	0	658,653	0	98,596	32,639	789,888
Total Assets	$ 906,053	$ 890,130	$ 228,876	$ 192,059	$ 240,525	$2,457,643
LIABILITIES AND FUND BALANCES						
Liabilities:						
Current Liabilities:						
Payables:						
Accounts	$	$ 111	$ 16,527	$ 18	$ 65,607	$ 82,263
Payroll			299		11,935	12,234
Federal		167				167
Other			56		1	57
Deferred Revenues			64,024		648	64,672
Due to Other Funds		100	289		38,705	39,094
Due To Component Units					11	11
Interfund Payable					13	13
Total Current Liabilities	0	378	81,195	18	116,920	198,511
Non-Current Liabilities						
Other Non-Current Liabilities					1,829	1,829
Total Non-Current Liabilities	0	0	0	0	1,829	1,829
Total Liabilities	0	378	81,195	18	118,749	200,340
Fund Balances:						
Reserved for:						
Encumbrances			293	36	32,297	32,626
Inventories					604	604
Imprest Accounts					14	14
Loans and Contracts		629,299		99,354	18,600	747,253
Other					3,447	3,447
Unreserved:						
Designated for:						
General Government Functions	906,053				40,691	946,744
Regulatory					10,448	10,448
Health & Human Services					7,597	7,597
Natural Resources and Recreation				92,651	46,065	138,716
Education		260,453	147,388		(45,361)	362,480
Transportation					549	549
Public Safety & Corrections					6,151	6,151
Employee Benefits					674	674
Total Fund Balances	906,053	889,752	147,681	192,041	121,776	2,257,303
Total Liabilities and Fund Balances	$ 906,053	$ 890,130	$ 228,876	$ 192,059	$ 240,525	$2,457,643

* Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Special Revenue Funds column. These funds do not meet the materiality threshold for separate column presentation.

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Available School Fund	Water Development Funds	Other Nonmajor Special Revenue Funds*	Totals
REVENUES						
Federal	$	$ 1,255	$	$ 16,604	$ 1,798	$ 19,657
Licenses, Fees, and Permits				268	41,854	42,122
Interest and Other Investment Income	23,753	53,911	751,777	1,277	6,906	837,624
Land Income			2,668		4,728	7,396
Settlement of Claims					300	300
Sales of Goods and Services					3,739	3,739
Other		48			14,872	14,920
Total Revenues	23,753	55,214	754,445	18,149	74,197	925,758
EXPENDITURES						
Current:						
General Government			599		66,153	66,752
Education		202	955,468		326,278	1,281,948
Employee Benefits					13,966	13,966
Health and Human Services					15,928	15,928
Public Safety and Corrections					83,704	83,704
Transportation					2,330	2,330
Natural Resources & Recreational Services				30,244	8,716	38,960
Regulatory Agencies					6,957	6,957
Capital Outlay			4,080		546	4,626
Total Expenditures	0	202	960,147	30,244	524,578	1,515,171
Excess (Deficiency) of Revenues Over (Under) Expenditures	23,753	55,012	(205,702)	(12,095)	(450,381)	(589,413)
OTHER FINANCING SOURCES (USES)						
Transfer In	685,804	59,805	708,465	1,949	739,660	2,195,683
Transfer Out		(131,727)	(540,810)	(3,678)	(174,064)	(850,279)
Bonds and Notes Issued		74,876		44,377	16,068	135,321
Sale of Capital Assets					15	15
Total Other Financing Sources (Uses)	685,804	2,954	167,655	42,648	581,679	1,480,740
Change in Fund Balances	709,557	57,966	(38,047)	30,553	131,298	891,327
Fund Balances, September 1, 2001	196,496	831,786	125,049	161,488	298,652	1,613,471
Restatements			60,679		(308,174)	(247,495)
Fund Balances, September 1, 2001, as Restated	196,496	831,786	185,728	161,488	(9,522)	1,365,976
Fund Balances, August 31, 2002	$ 906,053	$ 889,752	$ 147,681	$ 192,041	$ 121,776	$2,257,303

* Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Special Revenue Funds column. These funds do not meet the materiality threshold for separate column presentation.

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan Fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Student Loan Revenue Bond Fund** receives proceeds from the sale of revenue bonds and gifts or grants made to the Texas Higher Education Coordinating Board. Loans may be made from the fund to students qualifying for a loan under Subchapter C, Chapter 52.

The **Texas Military Facilities Commission Refund and Improvement Bond Fund** provides for the payment of principal and interest on the Commission's outstanding revenue bonds. The fund is composed of an Interest and Sinking Fund and a Reserve Fund.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply and sewer services.

The **Texas Park Development Bond Interest and Sinking Fund** receives net receipts from entrance or gate fees and investment receipts. It is used exclusively for the purpose of paying principal of, and interest on, the bonds as they mature and also exchange and collection charges in connection therewith.

State of Texas
Combining Balance Sheet – Nonmajor Debt Service Funds
August 31, 2002 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 197,644	$ 4,837	$	$	$ 1,193
Investments			5,242		
Restricted Cash and Cash Equivalents				1,443	
Interest and Dividends Receivable	1,816				
Due From Other Funds			100		
Total Current Assets	199,460	4,837	5,342	1,443	1,193
Non-Current Assets:					
Investments		103,615			
Total Non-Current Assets	0	103,615	0	0	0
Total Assets	$ 199,460	$ 108,452	$ 5,342	$ 1,443	$ 1,193
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts Payable	$	$ 4	$	$	$
Due To Other Funds	59,800				
Total Liabilities	59,800	4	0	0	0
Fund Balances:					
Reserved for Debt Service	139,660	108,448	5,342	1,443	1,193
Total Fund Balances	139,660	108,448	5,342	1,443	1,193
Total Liabilities and Fund Balances	$ 199,460	$ 108,452	$ 5,342	$ 1,443	$ 1,193

* This fund has activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds.

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund*	Totals
$ 692	$ 167	$	$ 204,533
			5,242
			1,443
			1,816
			100
692	167	0	213,134
			103,615
0	0	0	103,615
$ 692	$ 167	$ 0	$ 316,749
$	$	$	$ 4
			59,800
0	0	0	59,804
692	167		256,945
692	167	0	256,945
$ 692	$ 167	$ 0	$ 316,749

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
REVENUES					
Federal	$ 1,191	$	$ 96	$	$
Interest and Other Investment Income	7,494	12,521	179	29	98
Total Revenues	8,685	12,521	275	29	98
EXPENDITURES					
Current:					
General Government		4			
Education			17		
Debt Service:					
Principal	48,750	67,120	8,332	3,520	114,780
Interest	31,588	65,343	797	708	69,335
Total Expenditures	80,338	132,467	9,146	4,228	184,115
(Deficiency) of Revenues (Under) Expenditures	(71,653)	(119,946)	(8,871)	(4,199)	(184,017)
OTHER FINANCING SOURCES (USES)					
Transfer In	123,813	106,024	7,914	4,262	185,174
Transfer Out	(68,029)	(61)	(5)	(256)	
Bonds and Notes Issued		15		21	
Bond Proceeds for Advance Refunding				8,124	
Payments to Escrow for Advance Refunding				(8,124)	
Total Other Financing Sources (Uses)	55,784	105,978	7,909	4,027	185,174
Change in Fund Balances	(15,869)	(13,968)	(962)	(172)	1,157
Fund Balances, September 1, 2001	155,529	122,416	6,304	1,615	36
Fund Balances, August 31, 2002	$ 139,660	$ 108,448	$ 5,342	$ 1,443	$ 1,193

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund	Totals
$	$	$	$ 1,287
13		3	20,337
13	0	3	21,624
166			170
			17
30,000	4,560	3,940	281,002
4,286	13,665	1,882	187,604
34,452	18,225	5,822	468,793
(34,439)	(18,225)	(5,819)	(447,169)
34,993	18,232	9,643	490,055
		(3,825)	(72,176)
	160		196
			8,124
			(8,124)
34,993	18,392	5,818	418,075
554	167	(1)	(29,094)
138		1	286,039
$ 692	$ 167	$ 0	$ 256,945

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair, or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Building and Procurement Commission Office Building Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Youth Commission Facilities Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Military Facilities Commission Project Funds** are used to finance renovation and construction of new armories.

The **Texas Mental Health and Mental Retardation Facilities Project Funds** are used to pay for the cost of construction, repair, and remodeling for certain mental health facilities.

The **Texas State Preservation Board Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

The **Texas School for the Deaf Project Funds** are used for construction of dormitories and for renovation of educational facilities.

State of Texas
Combining Balance Sheet – Nonmajor Capital Projects Funds
August 31, 2002 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Office Building Project Funds	Texas Youth Commission Facilities Project Funds
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$103,935	$	$ 12,193	$ 159	$
Receivables:					
Federal					
Accounts					
Interest and Dividends			29		
Due From Other Funds		18,501	6,502	12,949	10,658
Inventories	1	737			
Total Assets	$103,936	$ 19,238	$ 18,724	$ 13,108	$ 10,658
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Payables:					
Accounts	$ 36	$ 4,205	$ 942	$ 2,437	$
Payroll	8		9		
Other		358		4,172	
Due to Other Funds	47,850		216		
Total Current Liabilities	47,894	4,563	1,167	6,609	0
Non-Current Liabilities:					
Interfund Payable					
Total Non-Current Liabilities	0	0	0	0	0
Total Liabilities	47,894	4,563	1,167	6,609	0
Fund Balances:					
Reserved for:					
Encumbrances	1	13,938	5,923	5,866	10,658
Inventories	1	737			
Public Finance Authority Programs	56,040				
Unreserved:					
Designated for:					
General Government				286	
Natural Resources and Recreation			11,634		
Public Safety and Corrections					
Undesignated				347	
Total Fund Balances	56,042	14,675	17,557	6,499	10,658
Total Liabilities and Fund Balances	$103,936	$ 19,238	$ 18,724	$ 13,108	$ 10,658

* This fund has activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Capital Projects Funds.

Texas Military Facilities Commission Project Funds	Texas Mental Health and Mental Retardation Facilities Project Funds	Texas State Preservation Board Project Funds	Texas School for the Deaf Project Funds*	Totals
$ 4,634	$	$	$	$120,921
88				88
15				15
				29
	3,739	101		52,450
77				815
$ 4,814	$ 3,739	$ 101	$ 0	$174,318
$ 37	$ 1,219	$ 69	$	$ 8,945
		5		22
				4,530
	1			48,067
37	1,220	74	0	61,564
	5,794			5,794
0	5,794	0	0	5,794
37	7,014	74	0	67,358
656		27		37,069
77				815
				56,040
				286
				11,634
4,044				4,044
	(3,275)			(2,928)
4,777	(3,275)	27	0	106,960
$ 4,814	$ 3,739	$ 101	$ 0	$174,318

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Projects Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Office Building Project Funds	Texas Youth Commission Facilities Project Funds
REVENUES					
Federal Revenues	$	$	$	$	$ 10,533
Interest and Other Investment Income	3,875		434		
Settlement of Claims	481				
Sales of Goods and Services					
Other					
Total Revenues	4,356	0	434	0	10,533
EXPENDITURES					
Current:					
General Government	2,020			608	
Education					
Public Safety and Corrections		16,861			
Natural Resources & Recreational Services			2,768		
Capital Outlay	36,613	14,367	15,064	23,421	18,078
Total Expenditures	38,633	31,228	17,832	24,029	18,078
(Deficiency) of Revenues (Under) Expenditures	(34,277)	(31,228)	(17,398)	(24,029)	(7,545)
OTHER FINANCING SOURCES (USES)					
Transfer In	4,876	36,838	14,078	9,873	11,459
Transfer Out	(80,473)		36	(3,668)	(988)
Bonds and Notes Issued	91,687				
Total Other Financing Sources (Uses)	16,090	36,838	14,114	6,205	10,471
Change in Fund Balances	(18,187)	5,610	(3,284)	(17,824)	2,926
Fund Balances, September 1, 2001	74,229	9,065	20,841	24,386	7,738
Restatements				(63)	(6)
Fund Balances, September 1, 2001, as Restated	74,229	9,065	20,841	24,323	7,732
Fund Balances, August 31, 2002	$ 56,042	$ 14,675	$ 17,557	$ 6,499	$ 10,658

Texas Military Facilities Commission Project Funds	Texas Mental Health and Mental Retardation Facilities Project Funds	Texas State Preservation Board Project Funds	Texas School for the Deaf Project Funds	Totals
$ 1,091	$	$	$	$ 11,624
59				4,368
				481
495				495
	10	237		247
1,645	10	237	0	17,215
		1,945		4,573
			230	230
1,551				18,412
				2,768
396	1,308	2,409		111,656
1,947	1,308	4,354	230	137,639
(302)	(1,298)	(4,117)	(230)	(120,424)
	3,810	1,454	230	82,618
(1,608)	(1,658)			(88,359)
4,722				96,409
3,114	2,152	1,454	230	90,668
2,812	854	(2,663)	0	(29,756)
1,965	(4,129)	2,690		136,785
				(69)
1,965	(4,129)	2,690	0	136,716
$ 4,777	$ (3,275)	$ 27	$ 0	$ 106,960

Nonmajor Permanent Funds

The **Permanent Health Fund For Higher Education** is a permanent fund established by the legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account has been designated by the legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches $2 billion, and each year thereafter, 10 percent of the interest, dividends, and other income accruing from investments during the previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the constitution.

The **Texas Commission on the Arts Trust Funds** are comprised primarily of the Texas Cultural Endowment Fund accounts held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development, and advance the well being of communities.

State of Texas
Combining Balance Sheet – Nonmajor Permanent Funds
August 31, 2002 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Funds	Other Nonmajor Permanent Funds	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$	$	$ 324	$ 403	$ 727
Investments	37,736	37,967			75,703
Interest and Dividends Receivable	2,413	1,511			3,924
Total Current Assets	40,149	39,478	324	403	80,354
Non-Current Assets:					
Investments	377,537	263,926	9,462	2,546	653,471
Total Non-Current Assets	377,537	263,926	9,462	2,546	653,471
Total Assets	$417,686	$303,404	$ 9,786	$ 2,949	$733,825
LIABILITIES AND FUND BALANCES					
Liabilities:					
Current Liabilities:					
Accounts Payable	$ 1,275	$ 687	$	$	$ 1,962
Total Liabilities	1,275	687	0	0	1,962
Fund Balances:					
Reserved for:					
General Government		302,717			302,717
Unreserved:					
Designated for:					
Permanent Health Fund	416,411				416,411
Undesignated			9,786	2,949	12,735
Total Fund Balances	416,411	302,717	9,786	2,949	731,863
Total Liabilities and Fund Balances	$417,686	$303,404	$ 9,786	$ 2,949	$733,825

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Permanent Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Funds	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income (Loss)	$ (45,145)	$ (33,688)	$ (907)	$ 82	$ (79,658)
Other			246	7	253
Total Revenues	(45,145)	(33,688)	(661)	89	(79,405)
EXPENDITURES					
Current:					
General Government	2,084	1,695	38	4	3,821
Total Expenditures	2,084	1,695	38	4	3,821
Excess (Deficiency) of Revenues Over (Under) Expenditures	(47,229)	(35,383)	(699)	85	(83,226)
OTHER FINANCING SOURCES (USES)					
Transfer In		34,028	2,000	2,500	38,528
Transfer Out	(27,432)		(994)	(596)	(29,022)
Total Other Financing Sources (Uses)	(27,432)	34,028	1,006	1,904	9,506
Change in Fund Balances	(74,661)	(1,355)	307	1,989	(73,720)
Fund Balances, September 1, 2001	491,329	304,264	9,479	960	806,032
Restatements	(257)	(192)			(449)
Fund Balances, September 1, 2001, as Restated	491,072	304,072	9,479	960	805,583
Fund Balances, August 31, 2002	$ 416,411	$ 302,717	$ 9,786	$ 2,949	$ 731,863

Enterprise Funds

Houston
1910

Fort Worth
1910

Colleges and Universities – Major Enterprise Fund

There are six university system offices and five independent universities in Texas' primary government presented in a single-column as a major fund on the Basic Financial Statements. A combining statement has been prepared to report the breakdown of the following universities:

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

State of Texas
Combining Statement of Net Assets
Enterprise Funds – Colleges and Universities
August 31, 2002 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 1,347,979	$ 234,238	$ 7,041	$ 116,476	$ 252,775
Securities Lending Collateral	202,553	255,381			
Investments		54,916	163,241	18,082	342
Restricted:					
Cash and Cash Equivalents	224,184	102,642	(4,197)	3,082	58,163
Short Term Investments		18,782	186,300		5,920
Loans and Contracts				91	
Receivables:					
Federal	141,713	40,323	6,692	6,658	6,565
Other Intergovernmental	18,098	382			
Accounts	55,519	130,251	22,866	48,920	30,264
Interest and Dividends	104,187	8,075	2,574	2,627	231
Gifts	53,865		14,155		140
Other	788,579		5,332	36,961	3,970
Due From Other Funds	90,916	111,129	68,019	50,680	48,538
Interfund Receivable	27			13	
Inventories	41,794	27,112	3,793	4,610	3,150
Prepaid Items		940	13,481	15,782	17,551
Loans and Contracts	39,669	15,910	1,721	4,050	2,099
Other Current Assets	93,379	10,988	11		10,013
Total Current Assets	3,202,462	1,011,069	491,029	308,032	439,721
Non-Current Assets:					
Restricted:					
Cash and Cash Equivalents	81		(650)	12,377	21,222
Short Term Investments		944	15,623		
Investments	11,336,976	389,290	426,630		1
Receivables			40,411		1,832
Loans and Contracts	81,606	5,150		11,411	1,336
Other				247	3,555
Loans and Contracts		18,051			
Investments	2,090,700	829,897		448,339	111,442
Gifts	129,556				
Capital Assets:					
Non-Depreciable	1,686,879	703,736	181,203	235,144	295,199
Depreciable	6,395,366	2,581,347	948,155	738,309	799,123
Accumulated Depreciation	(3,121,981)	(1,734,367)	(530,837)	(561,712)	(476,071)
Assets Held in Trust	64,609	362			
Other Non-Current Assets	1,247	2,245			2,288
Total Non-Current Assets	18,665,039	2,796,655	1,080,535	884,115	759,927
Total Assets	21,867,501	3,807,724	1,571,564	1,192,147	1,199,648

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 91,739	$ 13,950	$ 29,184	$ 10,689	$ 4,558	$ 19,647	$ 2,128,276
						457,934
		1,839		13,511		251,931
61,983	29,549	11,761	1,505	583	211	489,466
		1,589	52,086	1,417		266,094
			2,323	13		2,427
4,656	2,265		6,353	56	1,004	216,285
2,507		950		16	728	22,681
23,277	5,939	1,441	2,833	3,172		324,482
1,505	415			140	26	119,780
4,275	135			101		72,671
4,127	184	766	593	665	3,983	845,160
26,927	10,639	12,872	8,577	2,681	12,572	443,550
						40
3,961	599	2,022	441	328	3,012	90,822
	2,044	9,507		3,592		62,897
2,288	5,475					71,212
283		70	2,897			117,641
227,528	71,194	72,001	88,297	30,833	41,183	5,983,349
608					176	33,814
				8,812		25,379
63,232	13,089	24,758		22,273		12,276,249
		131				42,374
		7,814		94		107,411
					3,651	7,453
4,703						22,754
65,013	27,638	13,943	10,776			3,597,748
1,111			5,210			135,877
130,534	25,949	40,488	48,735	14,841	3,789	3,366,497
422,155	188,050	170,496	214,137	88,316	144,060	12,689,514
(267,811)	(79,383)	(147,905)	(128,855)	(47,409)	(97,709)	(7,194,040)
						64,971
439		4,815				11,034
419,984	175,343	114,540	150,003	86,927	53,967	25,187,035
647,512	246,537	186,541	238,300	117,760	95,150	31,170,384

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Enterprise Funds – Colleges and Universities (concluded)
August 31, 2002 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 409,784	$ 72,526	$ 41,042	$ 14,850	$ 20,787
Payroll		71,879		22,680	
Other Intergovernmental	1,982				
Federal	23,826			4,533	
Liabilities Payable from Restricted Assets	538,689		39,931		768
Due to Other Funds	7,783	49	127	172	218
Interfund Payable	14				
Deferred Revenue	554,709	187,301	71,663	59,605	108,933
Obligations/Securities Lending	202,553	255,381			
Employees' Compensable Leave	20,901	3,138	3,737	5,807	7,162
Claims and Judgments			3,568		
Capital Lease Obligations	645				120
Notes and Loans Payable	498,409	1,775	10,575		
G. O. Bonds Payable					3,940
Revenue Bonds Payable	81,000	70,905	14,600	8,885	12,655
Funds Held for Others	20,505	21,160	8,233	1,222	25,367
Other Current Liabilities	182,842	68,507	1,796	4,261	17,194
Total Current Liabilities	2,543,642	752,621	195,272	122,015	197,144
Non-Current Liabilities:					
Interfund Payable	2,938	4,113	962		
Employees' Compensable Leave	206,826	52,857	18,737	6,424	3,961
Claims and Judgments			44,003		
Capital Lease Obligations	860				66
Notes and Loans Payable	2,342	88,225			
G. O. Bonds Payable	8,995				8,430
Revenue Bonds Payable	1,680,600	822,619	290,350	158,525	187,990
Assets Held for Others	294,587	362			
Other Non-Current Liabilities	7,125	36,947	528	123	2,425
Total Non-Current Liabilities	2,204,273	1,005,123	354,580	165,072	202,872
Total Liabilities	4,747,915	1,757,744	549,852	287,087	400,016
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,044,051	586,471	354,928	201,052	404,672
Restricted for:					
Education	1,077,858	171,750		69,055	118,077
Debt Retirement	4,459			31	5,522
Capital Projects	153,974	5,285	73,765	1,736	
Funds Held as Permanent Investments:					
Nonexpendable	10,064,232	286,672	218,466	318,355	107,553
Expendable	188,678	31,247	166,936		
Unrestricted	2,586,334	968,555	207,617	314,831	163,808
Total Net Assets	$17,119,586	$ 2,049,980	$ 1,021,712	$ 905,060	$ 799,632

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 5,359	$ 8,821	$ 3,023	$ 4,189	$ 1,524	$ 5,494	$ 587,399
18,937		5,131	2,821		4,662	126,110
				522		2,504
					260	28,619
						579,388
1,052	5	637	17		11	10,071
						14
30,164	9,804	30,002	15,762	12,572	1,643	1,082,158
						457,934
599	1,933	233	963	68	430	44,971
						3,568
73	460	153		141		1,592
					1,474	512,233
	1,875	1,130	1,850		1,400	10,195
8,430	2,750	1,635	3,465	830		205,155
36,399		6,107	1,959		2,540	123,492
1,399	1,187	238	2,333	1,983	571	282,311
102,412	26,835	48,289	33,359	17,640	18,485	4,057,714
					485	8,498
8,930	45	1,726	854	701	4,132	305,193
						44,003
126	15,274	124		451		16,901
			11,264		3,620	105,451
	4,040	2,870	4,010		3,005	31,350
159,924	35,460	28,325	93,160	20,905		3,477,858
	167					295,116
42	20	963	2,950	216		51,339
169,022	55,006	34,008	112,238	22,273	11,242	4,335,709
271,434	81,841	82,297	145,597	39,913	29,727	8,393,423
192,612	74,590	43,132	79,597	42,386	43,872	5,067,363
32,715	46,629	8,760			1,009	1,525,853
5,080		460		504		16,056
		1,198				235,958
5,486	6,104	5,471	16,373	14,083	176	11,042,971
1,693		1,369		999		390,922
138,492	37,373	43,854	(3,267)	19,875	20,366	4,497,838
$ 376,078	$ 164,696	$ 104,244	$ 92,703	$ 77,847	$ 65,423	$22,776,961

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Enterprise Funds – Colleges and Universities
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	$	$ 35,362	$ 15,647	$	$ 23,311
Tuition Revenue - Pledged	655,436	351,103	101,540	189,684	161,178
Discounts and Allowances	(128,638)	(54,848)	(4,898)	(37,582)	(31,496)
Hospital Revenue - Pledged	2,758,797				
Discounts and Allowances	(1,232,809)				
Professional Fees	1,730,047	13,009	268,977		
Professional Fees - Pledged	4,500	5,241			
Discounts and Allowances	(1,147,038)		(116,901)		
Auxiliary Enterprises			481	34,633	
Auxiliary Enterprises - Pledged	225,779	169,112	63,077		64,869
Discounts and Allowances	(8,399)				(4,093)
Other Sales of Goods and Services		11,686	2,933	10,787	19,142
Other Sales of Goods and Services - Pledged	212,675	79,357	6,455		3,047
Discounts and Allowances	(36,873)				(1,362)
Interest and Investment Income		369		41,038	526
Federal Revenue	946,202	317,431	46,252	81,030	53,299
State Grant Revenue	71,921	64,117	92,081	7,627	7,308
Other Operating Grant Revenue	454,777	6,082	100,727	43,112	20,270
Other Revenues	129,358				2,499
Other Revenues - Pledged		52,073			
Total Operating Revenues	4,635,735	1,050,094	576,371	370,329	318,498
OPERATING EXPENSES					
Cost of Goods Sold	79,085	18,136		3,621	4,315
Salaries and Wages	3,452,144	964,675	462,789	314,426	282,066
Payroll Related Costs	884,316	246,619	2,595	68,516	64,195
Professional Fees and Services	262,570	128,531	78,950	5,813	22,867
Travel	70,920	43,291	11,211	8,772	8,714
Materials and Supplies	689,595	144,024	83,540	947	44,868
Communication and Utilities	171,718	83,999	36,736	29,603	26,099
Repairs and Maintenance	113,360	50,964	16,164	9,656	11,610
Rentals and Leases	58,923	22,784	7,721	6,745	5,856
Printing and Reproduction	30,089	13,085	6,759	5,211	3,958
Depreciation and Amortization	297,508	89,349	16,822	18,619	14,936
Bad Debt Expense	2,082	1,127	21,398	116	692
Interest Expense		150	1,945	7,462	33
Scholarships	168,731	114,063	28,405	47,028	37,543
Claims and Judgments		337	13,256	(70)	177
Other Expenses	459,087	107,685	60,952	87,694	34,656
Total Operating Expenses	6,740,128	2,028,819	849,243	614,159	562,585
Operating Income (Loss)	(2,104,393)	(978,725)	(272,872)	(243,830)	(244,087)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 47,158	$ 9,581	$ 24,450	$	$	$ 17,113	$ 172,622
68,675	18,404	9,974	25,326	19,500	1,906	1,602,726
(13,547)	(2,400)	(6,597)	(10,894)	(5,775)	(10,717)	(307,392)
						2,758,797
						(1,232,809)
27,507						2,039,540
						9,741
						(1,263,939)
1,853	2,457	961			1,238	41,623
24,259	6,049	23,641	2,952	4,228	10,338	594,304
(200)		(3,273)	(296)	(966)	(1,157)	(18,384)
12,870		4,064			3,483	64,965
			3,827	985		306,346
						(38,235)
		984			304	43,221
34,534	7,361	11,415	26,753	375	17,178	1,541,830
4,005	795	1,298	2,073		1,243	252,468
6,497	1,254	2,847	2,963	336	588	639,453
134	4,301	376	2,185	424	7	139,284
						52,073
213,745	47,802	70,140	54,889	19,107	41,524	7,398,234
5,520	202	3,266			3,821	117,966
209,100	52,554	58,081	49,118	24,935	56,492	5,926,380
48,172	14,692	16,077	11,141	6,871	18,514	1,381,708
10,924	802	2,509	6,401	1,944	743	522,054
5,516	1,116	1,507	1,578	863	761	154,249
22,410	8,206	6,540	4,150	4,726	11,933	1,020,939
10,841	6,210	7,244	3,184	2,157	5,440	383,231
8,344	1,490	1,826	1,249	856	3,687	219,206
5,608	1,260	1,281	924	344	937	112,383
2,052	817	474	617	113	249	63,424
12,375	7,647	2,903	5,086	3,153	5,630	474,028
420	417	7	556	148		26,963
1,457	24	60	9	5	47	11,192
25,029	11,326	9,573	12,953	11,443	5,077	471,171
						13,700
49,507	4,920	12,963	6,981		11,976	836,421
417,275	111,683	124,311	103,947	57,558	125,307	11,735,015
(203,530)	(63,881)	(54,171)	(49,058)	(38,451)	(83,783)	(4,336,781)

Concluded on the following page

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Enterprise Funds – Colleges and Universities (concluded)
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	$	$ 24,719	$ 256	$	$ 5,069
Gifts	197,090	59,992	19,476		13,230
Gifts - Pledged		4,670			436
Land Income		3,987			
Interest and Investment Income (Loss)	(586,253)	(80,601)	3,499	(20,819)	2,148
Interest and Investment Income- Pledged	105,259	56,009			5,176
Investing Activities Expense		(1,710)	(1,450)		(40)
Interest Expense	(90,645)	(49,156)	(28,473)	(9,217)	(11,403)
Borrower Rebates and Agent Fees		(129)			
Gain (Loss) on Sale of Capital Assets	(10,385)	(5,559)	(4,872)	(232)	482
Claims & Judgments		(969)	2,186		385
Other Benefit Payments	(84,453)				
Other Revenues	111,761	23,480	25,534	123,240	
Other Expenses	453	(65,182)	(4,987)	(94,234)	(5,373)
Total Nonoperating Revenues (Expenses)	(357,173)	(30,449)	11,169	(1,262)	10,110
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	(2,461,566)	(1,009,174)	(261,703)	(245,092)	(233,977)
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS					
Capital Contributions	89,395	7,406	6,017		1,346
Contributions to Endowments	87,678	4,588		6,452	202
Extraordinary Items	(13,634)			194	219
Transfer In	1,962,617	990,079	300,429	285,477	307,339
Transfer Out	(319,862)	(16)	(2)		
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	1,806,194	1,002,057	306,444	292,123	309,106
Change in Net Assets	(655,372)	(7,117)	44,741	47,031	75,129
Net Assets, September 1, 2001	21,395,005	4,028,105	1,554,755	1,348,064	1,448,804
Restatements	(3,620,047)	(1,971,008)	(577,784)	(490,035)	(724,301)
Net Assets, September 1, 2001, as Restated	17,774,958	2,057,097	976,971	858,029	724,503
Net Assets, August 31, 2002	$17,119,586	$ 2,049,980	$ 1,021,712	$ 905,060	$ 799,632

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$	$	$ 20	$	$ 3,520	$	$ 33,584
5,615	666	2,199	5,210	7,934	230	311,642
						5,106
						3,987
8,220	4,185	260	584	314	269	(668,194)
						166,444
		(47)	(1,000)	(124)		(4,371)
(4,131)	(1,499)		(2,851)	(656)	(296)	(198,327)
						(129)
(1,179)	(94)	(223)		2	(849)	(22,909)
		(16)	(684)			902
(325)		(1,315)			(2,693)	(88,786)
1,831	928		399	17	95	287,285
(45)					(1,215)	(170,583)
9,986	4,186	878	1,658	11,007	(4,459)	(344,349)
(193,544)	(59,695)	(53,293)	(47,400)	(27,444)	(88,242)	(4,681,130)
6,360		675		1,084	1,150	113,433
517		185	1,434	417		101,473
			2,186			(11,035)
201,394	67,740	60,845	61,684	26,148	87,418	4,351,170
(1,206)	(518)	(47)			(191)	(321,842)
207,065	67,222	61,658	65,304	27,649	88,377	4,233,199
13,521	7,527	8,365	17,904	205	135	(447,931)
674,711	248,481	261,294	223,206	129,005	187,549	31,498,979
(312,154)	(91,312)	(165,415)	(148,407)	(51,363)	(122,261)	(8,274,087)
362,557	157,169	95,879	74,799	77,642	65,288	23,224,892
$ 376,078	$ 164,696	$ 104,244	$ 92,703	$ 77,847	$ 65,423	$22,776,961

State of Texas
Combining Statement of Cash Flows
Enterprise Funds – Colleges and Universities
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	$ 3,036,742	$ 394,122	$ 332,134	$ 201,114	$ 219,262
Proceeds from Loan Programs	1,666,418	8,779	2,066	1,746	7,580
Proceeds from Other Revenues	184,712	752,859	267,948	176,537	106,931
Payments to Suppliers for Goods and Services	(2,075,367)	(734,816)	(356,832)	(93,741)	(156,578)
Payments to Employees	(4,337,572)	(1,246,973)	(454,383)	(380,373)	(327,282)
Payments for Loans Provided	(49,951)	(10,711)	(789)	(22,356)	(8,195)
Payments for Other Expenses	(61,280)	(5,104)	(5,125)	(130,205)	(69,130)
Net Cash Provided by Operating Activities	(1,636,298)	(841,844)	(214,981)	(247,278)	(227,412)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from Debt Issuance				274	
Proceeds from Transfers from Other Funds	1,776,374	887,735	243,141	303,253	306,408
Proceeds from Grant Receipts			20,830		
Proceeds from Other Financing Activities	94,776	138,663	16,236	73,846	21,704
Proceeds from Contributed Capital	307,440				
Payments of Principal on Debt Issuance				(3,379)	
Payments of Interest		(4)		(6,911)	
Payments of Other Costs of Debt Issuance					
Payments for Transfers to Other Funds				(22,979)	(6,378)
Payments for Other Uses	(317,670)	(5,414)		(112,168)	(4,260)
Net Cash Provided by Noncapital Financing Activities	1,860,920	1,020,980	280,207	231,936	317,474
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Fixed Assets	388	599			239
Proceeds from Debt Issuance	582,194	66,020	172,821		
Proceeds from Other Financing Activities				6,345	
Proceeds from Capital Contributions	43,802	2,205	6,017		
Proceeds of Advances from Other Funds		16,532	28,697		
Payments for Additions to Fixed Assets	(782,231)	(212,919)	(113,514)	(109,926)	(82,377)
Payments of Principal on Debt Issuance	(122,155)	(76,075)	(83,915)	(11,867)	
Payments of Interest on Debt Issuance	(82,016)	(48,953)	(12,265)	(1,475)	(11,403)
Payments on Other Costs of Debt Issuance			(8,579)		(31,394)
Net Cash Provided by Capital and Related Financing Activities	(360,018)	(252,591)	(10,738)	(116,923)	(124,935)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	15,574,966	3,311,698	48,645	86,035	63,609
Proceeds from Interest and Investment Income	170,481	67,105	11,698		11,853
Proceeds from Principal Payments on Loans				49	
Payments to Acquire Investments	(15,199,083)	(3,296,928)	(130,875)	(20,815)	(51,799)
Net Cash Provided by Investing Activities	546,364	81,875	(70,532)	65,269	23,663
Net Increase (Decrease) in Cash and Cash Equivalents	410,968	8,420	(16,044)	(66,996)	(11,210)
Cash and Cash Equivalents, September 1, 2001	1,161,276	328,460	18,238	198,931	343,370
Restatements					
Cash and Cash Equivalents, September 1, 2001 Restated	1,161,276	328,460	18,238	198,931	343,370
Cash and Cash Equivalents, August 31, 2002	$ 1,572,244	$ 336,880	$ 2,194	$ 131,935	$ 332,160

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 211,964	$ 30,604	$ 61,286	$ 20,024	$ 17,070	$ 21,220	$ 4,545,542
4,595			31,810	10		1,723,004
20,048	16,268	17,230	30,104	4,761	25,071	1,602,469
(145,855)	(18,383)	(23,832)	(37,178)	(22,290)	(39,654)	(3,704,526)
(207,738)	(66,805)	(74,054)	(47,962)	(31,042)	(76,901)	(7,251,085)
(4,430)		(460)	(22,325)	(11)		(119,228)
(55,007)	(17,613)	(22,597)	(17,052)		(1,741)	(384,854)
(176,423)	(55,929)	(42,427)	(42,579)	(31,502)	(72,005)	(3,588,678)
						274
178,860	62,397	48,292	51,854	1,418	74,771	3,934,503
		7,033				27,863
	974		4,696	33,624	230	384,749
7,776						315,216
(951)			(27)			(4,357)
(210)			(423)			(7,548)
(45)						(45)
				(1,411)		(30,768)
(325)		(23)	(697)		(141)	(440,698)
185,105	63,371	55,302	55,403	33,631	74,860	4,179,189
71				21		1,318
98,344	33,486	14,070	49,497	8,992		1,025,424
		66	352	1,052	365	8,180
107		469		1,022		53,622
3,282		6,633	7,191		3,850	66,185
(59,334)	(26,646)	(4,181)	(24,651)		(4,519)	(1,420,298)
(5,416)	(4,247)	(7,351)	(3,710)	(776)	(1,901)	(317,413)
(3,027)	(1,498)	(1,311)	(2,585)	(656)		(165,189)
(815)			(972)		(731)	(42,491)
33,212	1,095	8,395	25,122	9,655	(2,936)	(790,662)
34,046	14,626	9,994	14,185	51,390		19,209,194
10,702	3,402	1,027	128	1,490	201	278,087
						49
(21,954)	(13,961)	(21,277)	(50,644)	(63,471)		(18,870,807)
22,794	4,067	(10,256)	(36,331)	(10,591)	201	616,523
64,688	12,604	11,014	1,615	1,193	120	416,372
89,642	30,895	44,541	10,579	3,948	19,914	2,249,794
		(14,610)				(14,610)
89,642	30,895	29,931	10,579	3,948	19,914	2,235,184
$ 154,330	$ 43,499	$ 40,945	$ 12,194	$ 5,141	$ 20,034	$ 2,651,556

State of Texas
Combining Statement of Cash Flows
Enterprise Funds – Colleges and Universities
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
RECONCILLIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income (Loss)	$(2,104,393)	$ (978,725)	$ (272,872)	$ (243,830)	$ (244,087)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Amortization and Depreciation	297,508	89,349	16,822	18,619	14,936
Discounts and Allowances	2,082	1,127	21,398	116	692
Operating Income and Cash Flow Categories Classification Differences	120,332	29,995	15,569	13,416	17,008
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(175,646)	(27,349)	(11,214)	38,014	(17,830)
(Increase) Decrease in Due From Other Funds		(354)			
(Increase) Decrease in Inventories	(3,008)	191	(563)	2,169	1,136
(Increase) Decrease in Loans and Contracts	(923)	(1,367)		(39)	(658)
(Increase) Decrease in Other Assets	(3,583)	2,315	2,487	187,669	891
(Increase) Decrease in Prepaid Expenses		(85)	1,956	347	(8,052)
Increase (Decrease) in Payables	40,664	17,384	(2,655)	(10,939)	(1,057)
Increase (Decrease) in Due to Other Funds		1,997			(2,928)
Increase (Decrease) in Deferred Revenue	190,583	20,757	15,067	(1,373)	11,510
Increase (Decrease) in Other Liabilities	86	2,921	(976)	(251,447)	1,027
Total Adjustments	468,095	136,881	57,891	(3,448)	16,675
Net Cash Provided by Operating Activities	$(1,636,298)	$ (841,844)	$ (214,981)	$ (247,278)	$ (227,412)
Non Cash Transactions					
Net Change in Fair Value of Investments	$ 461,209	$ 91,324			$ 3,742
Donation of Capital Assets					$ (835)
Other	$ 543,237	$ 75,045			$ 2,239

University of North Texas System	Texas Woman's University	Stephen F Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ (203,530)	$ (63,881)	$ (54,171)	$ (49,058)	$ (38,451)	$ (83,783)	$(4,336,781)
12,375	7,647	2,903	5,086	3,153	5,630	474,028
420	417	7	556	148		26,963
2,265	2,954	1,032	723	413	5,732	209,439
(12,256)	(4,922)	962	(6,361)	(2,064)	(1,851)	(220,517)
		(653)			77	(930)
(261)	249	(279)	(144)	31	74	(405)
14		(460)		(1)		(3,434)
2		(70)				189,711
(53)	(1,975)	(1,974)	(464)	(547)		(10,847)
691	2,328	3,000	(504)	1,442	1,761	52,115
(2,551)	(32)	7			(1)	(3,508)
19,162	876	1,034	7,527	4,345	255	269,743
7,299	410	6,235	60	29	101	(234,255)
27,107	7,952	11,744	6,479	6,949	11,778	748,103
$ (176,423)	$ (55,929)	$ (42,427)	$ (42,579)	$ (31,502)	$ (72,005)	$(3,588,678)
	$ (781)		$ 1,562	$ 1,022		$ 558,078
						$ (835)
$ 3,168						$ 623,689

Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the Treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation Fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing & Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the Institutional Division's commissary operations and other miscellaneous revenue.

The **Texas Treasury Safekeeping Trust Company Fund** provides banking and trust services for a fee to internal and external entities. The Trust Company was initially created to provide direct access to services of the Federal Reserve System.

The **Texas Prepaid Higher Education Tuition Board** offers a program which allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds
August 31, 2002 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ (61,687)	$ 24,800	$ 105,365	$
Securities Lending Collateral				
Short Term Investments				
Restricted:				
Cash and Cash Equivalents	457,876	79,668		
Short Term Investments		77,844	157,694	
Loans and Contracts		7,809		
Receivables:				
Federal	21,379			
Accounts	155,755	773	27,418	1,460
Interest and Dividends	1,242	10,039		
Due From Other Funds	6,800		174	21,554
Interfund Receivable				
Inventories		10	5,443	7,360
Prepaid Items				
Loans and Contracts		100		
Other Current Assets		260		
Total Current Assets	581,365	201,303	296,094	30,374
Non-Current Assets:				
Restricted:				
Short Term Investments			10,090	
Investments		1,057,738	1,449,873	
Receivables				
Loans and Contracts		601,335		
Loans and Contracts		4,736		
Capital Assets:				
Non-Depreciable		3		283
Depreciable		1,417	5,183	4,217
Accumulated Depreciation		(999)	(3,909)	(2,841)
Assets Held in Trust				
Other Non-Current Assets		12,908		
Total Non-Current Assets	0	1,677,138	1,461,237	1,659
Total Assets	581,365	1,878,441	1,757,331	32,033

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 849	$ 19,731	$ 3,460	$ 92,518
	134,617		134,617
8,334			8,334
	81,858		619,402
			235,538
			7,809
			21,379
		479	185,885
637	4,268	43	16,229
			28,528
		2	2
		825	13,638
		302	302
	108,087	8,457	116,644
541			801
10,361	348,561	13,568	1,481,626
			10,090
	724,909		3,232,520
	403,864		403,864
			601,335
			4,736
		410	696
231	2,326	3,095	16,469
(7)	(528)	(1,566)	(9,850)
		8,865	8,865
			12,908
224	1,130,571	10,804	4,281,633
10,585	1,479,132	24,372	5,763,259

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds (concluded)
August 31, 2002 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 96,023	$ 926	$ 18,052	$ 6,800
Payroll			992	1,565
Federal	195			
Liabilities Payable from Restricted Assets			245,786	
Due to Other Funds		7	15,454	
Interfund Payable		292		
Deferred Revenue	27,586	9,502		
Obligations/Securities Lending				
Employees' Compensable Leave		451	706	972
Capital Lease Obligations				
Notes and Loans Payable		12,100		
Revenue Bonds Payable		10,135		
Other Current Liabilities		24,768	10,790	
Total Current Liabilities	123,804	58,181	291,780	9,337
Non-Current Liabilities:				
Employees' Compensable Leave		130	430	319
Capital Lease Obligations				
Revenue Bonds Payable		1,596,665		
Liabilities Payable From Restricted Assets			1,363,686	
Assets Held for Others		103,264		
Total Non-Current Liabilities	0	1,700,059	1,364,116	319
Total Liabilities	123,804	1,758,240	1,655,896	9,656
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		428	1,274	1,659
Restricted for:				
Debt Retirement		93,533		
Other	457,561		9,563	
Unrestricted:				
Other		26,240	90,598	20,718
Total Net Assets	$ 457,561	$ 120,201	$ 101,435	$ 22,377

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 271	$ 655	$ 329	$ 123,056
220		357	3,134
			195
	63,706		309,492
	65	1,094	16,620
			292
		54	37,142
	134,617		134,617
132	44	268	2,573
		122	122
		9,000	21,100
			10,135
10			35,568
633	199,087	11,224	694,046
49	45	114	1,087
		971	971
			1,596,665
	1,436,409		2,800,095
		8,865	112,129
49	1,436,454	9,950	4,510,947
682	1,635,541	21,174	5,204,993
224			3,585
			93,533
			467,124
9,679	(156,409)	3,198	(5,976)
$ 9,903	$ (156,409)	$ 3,198	$ 558,266

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
OPERATING REVENUES				
Lottery Collections	$	$	$2,966,782	$
Auxiliary Enterprises - Pledged				67,115
Unemployment Taxes	1,129,885			
Other Sales of Goods and Services				
Interest and Investment Income		127,263		
Federal Revenue	439,265			
Other Revenues	14,075	7,972	500	641
Total Operating Revenues	1,583,225	135,235	2,967,282	67,756
OPERATING EXPENSES				
Cost of Goods Sold				44,490
Salaries and Wages		5,917	11,632	15,071
Payroll Related Costs		1,615	2,655	4,176
Professional Fees and Services		1,292	4,428	49
Travel		210	307	56
Materials and Supplies		349	2,334	4,119
Communication and Utilities		130	391	21
Repairs and Maintenance		215	597	146
Rentals and Leases		914	6,197	271
Printing and Reproduction		65	14,836	60
Depreciation and Amortization		120	757	422
Unemployment Benefit Payments	2,712,360			
Bad Debt Expense			566	
Interest Expense		94,647		1
Lottery Prize Payments			1,867,887	
Employee/Participant Benefit Payments				
Other Expenses		6,362	122,047	
Total Operating Expenses	2,712,360	111,836	2,034,634	68,882
Operating Income (Loss)	(1,129,135)	23,399	932,648	(1,126)
NONOPERATING REVENUES (EXPENSES)				
Interest and Investment	29,144		60,131	
Loan Premium and Fees on Securities Lending				
Borrower Rebates and Agent Fees				
Gain (Loss) on Sale of Capital Assets	1	750		(3)
Claims and Judgments			(1)	5
Other Revenue				70
Total Nonoperating Revenues (Expenses)	29,145	750	60,130	72
Income (Loss) Before Capital Contributions, Endowments, Extraordinary Items and Transfers	(1,099,990)	24,149	992,778	(1,054)
CAPITAL CONTRIBUTIONS, ENDOWMENTS, EXTRAORDINARY ITEMS AND TRANSFERS				
Extraordinary Items	596,446			
Transfer In	84,266	175	37	5,502
Transfer Out			(928,882)	(2,852)
Total Capital Contributions, Endowments, Extraordinary Items and Transfers	680,712	175	(928,845)	2,650
Change in Net Assets	(419,278)	24,324	63,933	1,596
Total Net Assets, September 1, 2001	800,278	96,165	38,015	21,134
Restatements	76,561	(288)	(513)	(353)
Total Net Assets, September 1, 2001, as Restated	876,839	95,877	37,502	20,781
Total Net Assets, August 31, 2002	$ 457,561	$ 120,201	$ 101,435	$ 22,377

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$2,966,782
			67,115
			1,129,885
	233,630	9,958	243,588
		319	127,582
			439,265
3,609	3,203	1,728	31,728
3,609	236,833	12,005	5,005,945
		1,859	46,349
1,793	694	4,232	39,339
379	140	1,185	10,150
204	5,285	105	11,363
34	6	51	664
	129	661	7,592
188	92	140	962
	311	182	1,451
	11	696	8,089
	164	181	15,306
7	449	183	1,938
			2,712,360
			566
	1	205	94,854
			1,867,887
	347,713		347,713
929	599	2,818	132,755
3,534	355,594	12,498	5,299,338
75	(118,761)	(493)	(293,393)
255	(26,704)	120	62,946
	1,834		1,834
	(1,557)		(1,557)
		3	751
			4
			70
255	(26,427)	123	64,048
330	(145,188)	(370)	(229,345)
			596,446
		4	89,984
		(500)	(932,234)
0	0	(496)	(245,804)
330	(145,188)	(866)	(475,149)
9,573	(11,234)	4,258	958,189
	13	(194)	75,226
9,573	(11,221)	4,064	1,033,415
$ 9,903	$ (156,409)	$ 3,198	$ 558,266

State of Texas
Combining Statement of Cash Flows – Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$1,101,789	$	$2,958,429	$ 66,461
Proceeds from Loan Programs		56,943		
Proceeds from Other Revenues	1,028,347	5,692		641
Payments to Suppliers for Goods and Services		(12,153)	(304,714)	(40,521)
Payments to Employees		(6,986)	(14,884)	(19,247)
Payments for Loans Provided		(118,419)		
Payments for Other Expenses	(2,644,607)		(1,744,224)	(5,124)
Net Cash Provided by Operating Activities	(514,471)	(74,923)	894,607	2,210
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance		423,379		
Proceeds from Transfers from Other Funds	4,043,294	11,339		680
Proceeds from Other Financing Activities			58,841	
Payments of Principal on Debt Issuance		(254,895)		
Payments of Interest		(93,620)		
Payments of Other Costs of Debt Issuance		(3,659)		
Payments for Transfers to Other Funds	(3,846,803)	(11,362)	(956,478)	(3,113)
Payments for Other Uses			(154,303)	
Net Cash Provided by Noncapital Financing Activities	196,491	71,182	(1,051,940)	(2,433)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Sale of Fixed Assets				
Proceeds from Other Financing Activities	5			
Payments for Additions to Fixed Assets		(378)	(490)	(507)
Net Cash Provided by Capital and Related Financing Activities	5	(378)	(490)	(507)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments		580,009	154,303	25,860
Proceeds from Interest and Investment Income	36,172	65,983	270	632
Payments to Acquire Investments		(686,186)	(60,191)	(25,762)
Net Cash Provided by Investing Activities	36,172	(40,194)	94,382	730
Net (Decrease) in Cash and Cash Equivalents	(281,803)	(44,313)	(63,441)	
Cash and Cash Equivalents, September 1, 2001	677,992	148,781	168,806	
Cash and Cash Equivalents, August 31, 2002	$ 396,189	$ 104,468	$ 105,365	$ 0

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$ 156,064	$ 9,829	$4,292,572
		319	57,262
3,624	4	1,809	1,040,117
	(6,549)	(1,897)	(365,834)
(2,172)		(5,324)	(48,613)
		(1,810)	(120,229)
(618)	(21,029)	(3,889)	(4,419,491)
834	128,490	(963)	435,784
		3,345	426,724
		4	4,055,317
			58,841
			(254,895)
		(150)	(93,770)
		(88)	(3,747)
(299)		(500)	(4,818,555)
		(4)	(154,307)
(299)	0	2,607	(784,392)
		4	4
			5
(231)	(1,928)	(215)	(3,749)
(231)	(1,928)	(211)	(3,740)
			760,172
246	24,421	108	127,832
	(144,959)	(2,283)	(919,381)
246	(120,538)	(2,175)	(31,377)
550	6,024	(742)	(383,725)
299	95,565	4,202	1,095,645
$ 849	$ 101,589	$ 3,460	$ 711,920

State of Texas
Combining Statement of Cash Flows – Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Texas Department of Criminal Justice Institutional Division
RECONCILLIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ (1,129,135)	$ 23,399	$ 932,648	$ (1,126)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Amortization and Depreciation		120	757	422
Discounts and Allowances			566	
Operating Income and Cash Flow Categories Classification Differences	596,446	1,624		(399)
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(53,575)	(1,254)	(8,853)	(654)
(Increase) Decrease in Inventories			33	955
(Increase) Decrease in Loans and Contracts		(66,938)		
(Increase) Decrease in Other Assets		(358)		
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	70,905	(11,252)	(30,544)	3,012
Increase (Decrease) in Due to Other Funds		591		
Increase (Decrease) in Deferred Revenue	888	(5,121)		
Increase (Decrease) in Other Liabilities		(15,734)		
Total Adjustments	614,664	(98,322)	(38,041)	3,336
Net Cash Provided by Operating Activities	$ (514,471)	$ (74,923)	$ 894,607	$ 2,210
NON CASH TRANSACTIONS				
Net Change in Fair Value of Investments		$ 24,642	$ 59,860	

Texas Treasury Safekeeping Trust Company Fund	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 75	$ (118,761)	$ (493)	$ (293,393)
7	449	183	1,938
			566
1,012	870	2,492	602,045
(637)	(80,422)	(96)	(145,491)
			988
		(4,093)	(71,031)
(124)			(482)
	326,321	705	327,026
492	2	(803)	31,812
		1,093	1,684
	31	49	(4,153)
9			(15,725)
759	247,251	(470)	729,177
$ 834	$ 128,490	$ (963)	$ 435,784
	$ (51,305)		$ 33,197

Fiduciary Funds

Midland

Amarillo
1943

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The State of Texas is the only employer participating in the plan.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death, and disability benefits for fire fighters who serve without monetary reward.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The Fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments, and pays expenses associated with administration of the deferred compensation plan.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's General Revenue Fund for annuity and refund payments to eligible judicial employees.

State of Texas
Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
August 31, 2002 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Deferred Compensation Trust Fund	Judicial Retirement System - Plan Two Trust Fund
ASSETS					
Cash and Cash Equivalents	$ 843,966	$ 29,075	$ 557	$ 26,241	$ 606
Securities Lending Collateral	63,407	2,021,025	70,086		11,649
Investments	70,841,182	17,771,288	615,926	209,890	103,479
Receivables:					
Interest and Dividends	310,014	1,743	59	2	11
Other	267,278	1,033,802	34,182	49	6,546
Due From Other Funds	705	3,761		151	
Interfund Receivable					
Properties, at Cost, net of Accumulated Depreciation	32,847	7,674			
Total Assets	72,359,399	20,868,368	720,810	236,333	122,291
LIABILITIES					
Payables:					
Accounts	528,871	2,395,239	82,664		13,745
Payroll		1,479			
Deferred Revenue	28,337	756			
Due to Other Funds	40,785	917	126	15	32
Interfund Payable					
Employees' Compensable Leave	2,197	1,383			
Capital Lease Obligation					
Obligations/Securities Lending	63,407	2,021,025	70,086		11,649
Total Liabilities	663,597	4,420,799	152,876	15	25,426
NET ASSETS					
Net Assets Held in Trust for Pension Benefits	$ 71,695,802	$ 16,447,569	$ 567,934	$ 236,318	$ 96,865

Fire Fighters' Relief and Retirement Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Judicial Retirement System - Plan One Fund	Totals
$ 310	$ 3,842	$ 7	$	$ 904,604
				2,166,167
29,770				89,571,535
20	10			311,859
161	2,414			1,344,432
		15	243	4,875
1				1
28				40,549
30,290	6,266	22	243	94,344,022
126	3,541		243	3,024,429
21				1,500
289				29,382
3	20	10		41,908
1				1
22				3,602
12				12
				2,166,167
474	3,561	10	243	5,267,001
$ 29,816	$ 2,705	$ 12	$ 0	$ 89,077,021

State of Texas
Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Deferred Compensation Trust Fund	Judicial Retirement System - Plan Two Trust Fund
ADDITIONS					
Contributions:					
Member Contributions	$ 1,560,701	$ 327,197	$ 5	$ 14,661	$ 2,780
State Contributions		301,491			7,804
Transfers In of Contributions	1,201,885				
Other Contributions	157,782				
Total Contributions	2,920,368	628,688	5	14,661	10,584
Investment Income:					
From Investing Activities:					
Net (Depreciation) in Fair Value of Investments	(8,477,881)	(1,796,858)	(62,613)	(38,763)	(10,048)
Interest and Investment Income	2,371,891	529,115	18,450	(9,995)	2,911
Total Investing Income	(6,105,990)	(1,267,743)	(44,163)	(48,758)	(7,137)
Less Investing Activities Expense	12,922	18,070	652	2	111
Net Income (Loss) from Investing Activities	(6,118,912)	(1,285,813)	(44,815)	(48,760)	(7,248)
From Securities Lending Activities:					
Securities Lending Income	221,744	43,426	1,515		238
Less Securities Lending Expense:					
Borrower Rebates	167,792	34,019	1,187		186
Management Fees	9,375	2,441	85		14
Net Income from Securities Lending	44,577	6,966	243	0	38
Total Net Investment Income (Loss)	(6,074,335)	(1,278,847)	(44,572)	(48,760)	(7,210)
Other Additions:					
Other Revenue		252			
Transfer In	3,154	24,184		429	
Total Other Additions	3,154	24,436	0	429	0
Total Additions	(3,150,813)	(625,723)	(44,567)	(33,670)	3,374
DEDUCTIONS					
Benefits	4,344,927	907,508	20,762	27,295	1,365
Refunds of Contributions	186,421	70,031			187
Transfers Out of Contributions	24,184	3,873			
Administrative Expenses	24,617	6,064	451	439	257
Total Deductions	4,580,149	987,476	21,213	27,734	1,809
INCREASE (DECREASE) IN NET ASSETS	(7,730,962)	(1,613,199)	(65,780)	(61,404)	1,565
NET ASSETS					
Net Assets, September 1, 2001	79,427,815	18,061,522	633,714	297,722	95,300
Restatements	(1,051)	(754)			
Net Assets, September 1, 2001 as Restated	79,426,764	18,060,768	633,714	297,722	95,300
Net Assets, August 31, 2002	$ 71,695,802	$ 16,447,569	$ 567,934	$ 236,318	$ 96,865

Fire Fighters' Relief and Retirement Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Judicial Retirement System - Plan One Fund	Totals
$ 2,325	$ 30,502	$	$	$ 1,938,171
				309,295
				1,201,885
4				157,786
2,329	30,502	0	0	3,607,137
(2,670)				(10,388,833)
(703)	120	2		2,911,791
(3,373)	120	2	0	(7,477,042)
213				31,970
(3,586)	120	2	0	(7,509,012)
				266,923
				203,184
				11,915
0	0	0	0	51,824
(3,586)	120	2	0	(7,457,188)
	11			263
		234	21,684	49,685
0	11	234	21,684	49,948
(1,257)	30,633	236	21,684	(3,800,103)
1,997	30,028		21,778	5,355,660
				256,639
				28,057
695	970	236	120	33,849
2,692	30,998	236	21,898	5,674,205
(3,949)	(365)	0	(214)	(9,474,308)
33,795	3,070	12	214	98,553,164
(30)				(1,835)
33,765	3,070	12	214	98,551,329
$ 29,816	$ 2,705	$ 12	$ 0	$ 89,077,021

External Investment Trust Funds

The **Texas Government Investment Pool (TexPool) Trust Fund** is a local government investment pool administered by the Treasury Operations Division - Comptroller's Office. The investor base consists of cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas.

The **Texas Treasury Safekeeping Trust Company Municipal Utility District Fund** is an investment pool available for municipal utility districts and is administered by the Treasury Operations Division - Comptroller's Office. The function of this fund is to invest moneys on behalf of these legally separate entities.

State of Texas
Combining Statement of Fiduciary Net Assets – External Investment Trust Funds
August 31, 2002 (Amounts in Thousands)

	Texas Government Investment Pool (Tex Pool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ASSETS			
Investments	$ 10,340,755	$ 719	$ 10,341,474
Interest and Dividends Receivable	21,824		21,824
Total Assets	10,362,579	719	10,363,298
LIABILITIES			
Accounts Payable	109,338		109,338
Total Liabilities	109,338	0	109,338
NET ASSETS			
Net Assets Held in Trust for Pool Participants	$ 10,253,241	$ 719	$ 10,253,960

State of Texas
Combining Statement of Changes in Fiduciary Net Assets – External Investment Trust Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Government Investment Pool (Tex Pool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ADDITIONS			
Investment Income:			
From Investing Activities:			
Interest and Investment Income	$ 281,924	$ 13	$ 281,937
Total Investing Income	281,924	13	281,937
Less Investing Activities Expense	6,802		6,802
Net Income from Investing Activities	275,122	13	275,135
Capital Share and Individual Account Transactions:			
Net (Decrease) in Participant Investments	(1,318,801)	(7)	(1,318,808)
INCREASE (DECREASE) IN NET ASSETS	(1,043,679)	6	(1,043,673)
NET ASSETS			
Net Assets, September 1, 2001	11,448,767	713	11,449,480
Restatements	(151,847)		(151,847)
Net Assets, September 1, 2001 as Restated	11,296,920	713	11,297,633
Net Assets, August 31, 2002	$ 10,253,241	$ 719	$ 10,253,960

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of political subdivisions.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity, and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the State of Texas.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was formed to protect the general revenue of the state and to plan and provide for catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

State of Texas
Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds
August 31, 2002 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Other Private-Purpose Trust Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 168	$ 68,021	$ 1	$	$ 95,911	$ 164,101
Investments	1,308,891	95,839	106,436	301,607	42,192	1,854,965
Receivables:						
Other Intergovernmental					144	144
Interest and Dividends	5,917	155			118	6,190
Other		20,588			140	20,728
Due From Other Funds		6,850				6,850
Properties, at Cost, net of Accumulated Depreciation					287	287
Other Assets			75,281		2	75,283
Total Assets	1,314,976	191,453	181,718	301,607	138,794	2,128,548
LIABILITIES						
Payables:						
Accounts	1,176	9,561			1,624	12,361
Payroll		78,724				78,724
Deferred Revenue					2,068	2,068
Due to Other Funds		6,366			12	6,378
Funds Held for Others			75,281		2,482	77,763
Total Liabilities	1,176	94,651	75,281	0	6,186	177,294
NET ASSETS						
Net Assets Held in Trust for:						
Employees' Post-Employment Healthcare Benefits		96,802				96,802
Individuals, Organizations, and Other Governments	1,313,800		106,437	301,607	132,608	1,854,452
Total Net Assets	$1,313,800	$ 96,802	$ 106,437	$ 301,607	$ 132,608	$1,951,254

State of Texas
Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Other Private-Purpose Trust Funds	Totals
ADDITIONS						
Investment Income:						
From Investing Activities:						
Net (Depreciation) in						
Fair Value of Investments	$ (161,557)	$	$	$	$ (3,531)	$ (165,088)
Interest and Investment Income	35,160	7,732	2,492	5,754	4,845	55,983
Total Investing Income (Loss)	(126,397)	7,732	2,492	5,754	1,314	(109,105)
Less Investing Activities Expense	3,890					3,890
Total Net Investment Income (Loss)	(130,287)	7,732	2,492	5,754	1,314	(112,995)
Other Additions:						
Federal Revenue					1,183	1,183
Contributions to Employee Benefit Funds		191,284				191,284
Settlement of Claims	510,892				29	510,921
Other Revenue		60	26,934	19,105	215,537	261,636
Transfer In		407,743			5,793	413,536
Total Other Additions	510,892	599,087	26,934	19,105	222,542	1,378,560
Total Additions	380,605	606,819	29,426	24,859	223,856	1,265,565
DEDUCTIONS						
Benefits		468,503			332	468,835
Transfer Out		24,798		1,000	6,016	31,814
Intergovernmental Payments	17,760				63,667	81,427
Administrative Expenses		4,913	74,995	58	99,986	179,952
Total Deductions	17,760	498,214	74,995	1,058	170,001	762,028
INCREASE (DECREASE) IN NET ASSETS	362,845	108,605	(45,569)	23,801	53,855	503,537
NET ASSETS						
Net Assets, September 1, 2001	951,429	(11,771)	152,006	277,806	79,169	1,448,639
Restatements	(474)	(32)			(416)	(922)
Net Assets, September 1, 2001 as Restated	950,955	(11,803)	152,006	277,806	78,753	1,447,717
Net Assets, August 31, 2002	$1,313,800	$ 96,802	$ 106,437	$ 301,607	$ 132,608	$1,951,254

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident, and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA), and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority, and special purpose district authorizing the collection.

State of Texas
Combining Statement of Fiduciary Net Assets – Agency Funds
August 31, 2002 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 39	$ 316	$ 12,113	$ 500,428	$ 66,166	$ 579,062
Investments	1,201,275				22,191	1,223,466
Receivables:						
Other Intergovernmental					627	627
Interest and Dividends	35,770		28		17	35,815
Taxes					17	17
Accounts					54,638	54,638
Due From Other Funds					2,271	2,271
Other Assets		963,753	527,024		99,402	1,590,179
Total Assets	$1,237,084	$ 964,069	$ 539,165	$ 500,428	$ 245,329	$3,486,075
LIABILITIES						
Payables:						
Accounts	$	$	$	$	$ 8,390	$ 8,390
Other Intergovernmental				500,428	1,572	502,000
Due to Other Funds					2,544	2,544
Funds Held for Others	1,237,084	964,069	539,165		232,823	2,973,141
Total Liabilities	$1,237,084	$ 964,069	$ 539,165	$ 500,428	$ 245,329	$3,486,075

State of Texas
Combining Statement of Changes in Assets and Liabilities – Agency Funds
August 31, 2002 (Amounts in Thousands)

	Beginning Balance September 1, 2001	Additions	Deductions	Ending Balance August 31, 2002
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	$ 316	$	$ 277	$ 39
Investments	1,455,987		254,712	1,201,275
Interest and Dividends Receivable		35,770		35,770
Total Assets	$ 1,456,303	$ 35,770	$ 254,989	$ 1,237,084
LIABILITIES				
Funds Held for Others	$ 1,456,303	$	$ 219,219	$ 1,237,084
Total Liabilities	$ 1,456,303	$ 0	$ 219,219	$ 1,237,084
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 316	$ 316	$ 316	$ 316
Other Assets	845,394	963,753	845,394	963,753
Total Assets	$ 845,710	$ 964,069	$ 845,710	$ 964,069
LIABILITIES				
Funds Held for Others	$ 845,710	$ 964,069	$ 845,710	$ 964,069
Total Liabilities	$ 845,710	$ 964,069	$ 845,710	$ 964,069
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	$ 3,163	$ 17,956	$ 9,006	$ 12,113
Interest and Dividends Receivable	12	28	12	28
Other Assets	506,785	57,256	37,017	527,024
Total Assets	$ 509,960	$ 75,240	$ 46,035	$ 539,165
LIABILITIES				
Accounts Payable	$	$ 156	$ 156	$
Funds Held for Others	509,960	75,270	46,065	539,165
Total Liabilities	$ 509,960	$ 75,426	$ 46,221	$ 539,165
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 509,992	$ 4,923,834	$ 4,933,398	$ 500,428
Total Assets	$ 509,992	$ 4,923,834	$ 4,933,398	$ 500,428
LIABILITIES				
Payables:				
Accounts	$	$ 4,101,573	$ 4,101,573	$
Other Intergovernmental	509,992	500,428	509,992	500,428
Funds Held for Others		5,433,760	5,433,760	
Total Liabilities	$ 509,992	$ 10,035,761	$ 10,045,325	$ 500,428

Concluded on the following page

State of Texas
Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)
August 31, 2002 (Amounts in Thousands)

	Beginning Balance September 1, 2001	Additions	Deductions	Ending Balance August 31, 2002
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 373,415	$ 4,709,490	$ 5,016,739	$ 66,166
Investments	29,836	349	7,994	22,191
Receivables:				
Other Intergovernmental	596	31		627
Interest and Dividends	597	16	596	17
Taxes	17	15	15	17
Accounts	42,879	186,704	174,945	54,638
Other	16		16	
Due From Other Funds	3,618	2,595	3,942	2,271
Interfund Receivable	1,009	2,537	3,546	
Other Assets	242,376	55,878	198,852	99,402
Total Assets	$ 694,359	$ 4,957,615	$ 5,406,645	$ 245,329
LIABILITIES				
Payables:				
Accounts	$ 8,309	$ 1,605,554	$ 1,605,473	$ 8,390
Other Intergovernmental	2,661		1,089	1,572
Interfund Payable	1,406	3,735	5,141	
Due to Other Funds	10,930	32,300	40,686	2,544
Funds Held for Others	671,053	4,550,053	4,988,283	232,823
Total Liabilities	$ 694,359	$ 6,191,642	$ 6,640,672	$ 245,329
Totals - All Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 887,202	$ 9,651,596	$ 9,959,736	$ 579,062
Investments	1,485,823	349	262,706	1,223,466
Receivables:				
Other Intergovernmental	596	31		627
Interest and Dividends	609	35,814	608	35,815
Taxes	17	15	15	17
Accounts	42,879	186,704	174,945	54,638
Other	16		16	
Due From Other Funds	3,618	2,595	3,942	2,271
Interfund Receivable	1,009	2,537	3,546	
Other Assets	1,594,555	1,076,887	1,081,263	1,590,179
Total Assets	$ 4,016,324	$ 10,956,528	$ 11,486,777	$ 3,486,075
LIABILITIES				
Payables:				
Accounts	$ 8,309	$ 5,707,283	$ 5,707,202	$ 8,390
Other Intergovernmental	512,653	500,428	511,081	502,000
Interfund Payable	1,406	3,735	5,141	
Due to Other Funds	10,930	32,300	40,686	2,544
Funds Held for Others	3,483,026	11,023,152	11,533,037	2,973,141
Total Liabilities	$ 4,016,324	$ 17,266,898	$ 17,797,147	$ 3,486,075

Discretely Presented Component Units

Houston Ship Channel

Houston 1921

Discretely Presented Component Units

Governmental:

The **State Bar of Texas** is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that the public responsibilities of the legal profession are more effectively discharged.

The **Texas Agricultural Finance Authority** was created by the Texas Legislature as a public authority within the Department of Agriculture. The Authority provides financial assistance for the expansion, development, and diversification of producing, processing, marketing, and exporting of Texas agricultural products.

The **Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.** is a legally separate organization established under the Texas Non-Profit Corporation Act. It is a component unit of the Texas Prepaid Higher Education Tuition Board and is a direct support organization of the prepaid tuition program. It was created to provide prepaid tuition scholarships to students meeting economic or academic requirements.

The **Texas Appraiser Licensing and Certification Board** was created by the Texas Legislature to regulate the appraisal industry in the State of Texas.

Proprietary:

The **Texas Guaranteed Student Loan Corporation** processes loans, issues loan guarantees, provides collection assistance, and collects loan fees to support the program.

The **Texas Water Resources Finance Authority** was created by the Texas Legislature for the purpose of increasing the availability of financing for water-related projects.

The **Texas Small Business Industrial Development Corporation** was established to promote economic development for the State of Texas.

The **Texas Boll Weevil Eradication Foundation, Inc.** (TBWEF) is a legally separate entity and fiscally dependent on Texas Department of Agriculture (TDA). The Foundation was established to eradicate boll weevils from all cotton, including organically grown cotton. TBWEF works with TDA and growers of organic cotton to protect the eligibility of organic and transitional certified cotton production in an eradication zone. TBWEF also ensures the ultimate success of the boll weevil eradication program in the state of Texas.

The **Texas Workers' Compensation Insurance Fund** is a corporate entity established to receive premiums paid by employers for workers' compensation insurance. Due to changes in the organizational structure, the fund is now reported as a related organization. See Note 19 for additional information.

State of Texas
Statement of Net Assets – Component Units
August 31, 2002 (Amounts in Thousands)

	Total Governmental Activities	Total Business-Type Activities	Total Component Units
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 15,959	$ 104,884	$ 120,843
Investments		143,022	143,022
Restricted Cash and Cash Equivalents		23,735	23,735
Receivables:			
Taxes		21	21
Federal		33,932	33,932
Accounts	140	11,800	11,940
Interest and Dividends	197	2,788	2,985
Gifts		440	440
Other	563	11,833	12,396
Due From Primary Government	54	11	65
Inventories	17	603	620
Prepaid Items	968	848	1,816
Loans and Contracts		29,111	29,111
Other Current Assets		815	815
Total Current Assets	17,898	363,843	381,741
Non-Current Assets:			
Restricted:			
Cash and Cash Equivalents		169	169
Investments		25,780	25,780
Loans and Contracts		87,180	87,180
Investments	18,824	290,077	308,901
Land	154		154
Construction in Progress	104		104
Buildings	6,282		6,282
Facilities and Other Improvements		2,204	2,204
Furniture and Equipment	5,135	17,171	22,306
Vehicles, Boats and Aircraft		21,457	21,457
Other Captial Assets		31,380	31,380
Accumulated Depreciation	(8,692)	(30,868)	(39,560)
Other Non-Current Assets		8,127	8,127
Total Non-Current Assets	21,807	452,677	474,484
Total Assets	39,705	816,520	856,225
LIABILITIES			
Current Liabilities:			
Payables:			
Federal		42,257	42,257
Accounts	1,698	20,921	22,619
Payroll	28	3,627	3,655
Other Intergovernmental	423		423
Internal Balances	2,352	(2,352)	
Deferred Revenue	6,122	36,717	42,839
Notes and Loans Payable		56,945	56,945
Revenue Bonds Payable		12,680	12,680
Employees' Compensable Leave	934	160	1,094
Capital Lease Obligations		25	25
Other Current Liabilities	528	9,607	10,135
Total Current Liabilities	12,085	180,587	192,672
Non-Current Liabilities:			
Notes and Loans Payable		185,091	185,091
Revenue Bonds Payable		176,333	176,333
Employees' Compensable Leave	7	1,622	1,629
Capital Lease Obligations		2	2
Liabilities Payable From Restricted Assets		151,163	151,163
Other Non-Current Liabilities		31,035	31,035
Total Non-Current Liabilities	7	545,246	545,253
Total Liabilities	12,092	725,833	737,925
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,983	17,054	20,037
Restricted for:			
Education		94,955	94,955
Capital Projects		508	508
Other		229	229
Unrestricted	24,630	(22,059)	2,571
Total Net Assets	$ 27,613	$ 90,687	$ 118,300

State of Texas
Statement of Activities – Component Units
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Governmental Activities	Net (Expenses) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expenses) Revenue and Changes in Net Assets: Total
Component Units							
Governmental Activities:							
General Government	$ 32,153	$ 27,516	$	$	$ (4,637)	$	$ (4,637)
Education	94		94		0		0
Regulatory	452	8			(444)		(444)
Natural Resources and Recreational	151	4			(147)		(147)
Business-Type Activities:							
Texas Guaranteed Student Loan Corporation	86,565	899	116,829			31,163	31,163
Texas Water Resources Finance Authority	7,219		8,281			1,062	1,062
Texas Small Business Industrial Development Corporation	2,561		2,527			(34)	(34)
Texas Boll Weevil Eradication Foundation, Inc.	124,432	50,329	29,494			(44,609)	(44,609)
Other Component Units	157,179	120,950	35,437			(792)	(792)
Total Component Units	$410,806	$199,706	$192,662	$ 0	(5,228)	(13,210)	(18,438)
General Revenues:							
Unrestricted Investment Earnings					1,240	6,284	7,524
Gain/(Loss) on Sale of Capital Assets					(174)	822	648
Capital Contribution						2,500	2,500
Other Revenues					3,870	25,235	29,105
Total General Revenues and Transfers					4,936	34,841	39,777
Change in Net Assets					(292)	21,631	21,339
Net Assets, September 1, 2001					37,055	812,046	849,101
Restatements					(9,150)	(742,990)	(752,140)
Net Assets, September 1, 2001, as Restated					27,905	69,056	96,961
Net Assets, August 31, 2002					$ 27,613	$ 90,687	$118,300

State of Texas
Combining Balance Sheet –
Discretely Presented Governmental Component Units
August 31, 2002 (Amounts in Thousands)

	State Bar of Texas	Texas Agricultural Finance Authority	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Appraiser Licensing and Certification Board	Total
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 5,056	$ 10,901	$ 2	$	$ 15,959
Receivables:					
Accounts	140				140
Interest and Dividends	197				197
Other	563				563
Due From Primary Government				54	54
Inventories	17				17
Prepaid Items	968				968
Total Current Assets	6,941	10,901	2	54	17,898
Non-Current Assets:					
Investments	18,824				18,824
Total Non-Current Assets	18,824	0	0	0	18,824
Total Assets	$ 25,765	$ 10,901	$ 2	$ 54	$ 36,722
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Payables:					
Accounts	$ 1,688	$ 2	$	$ 8	$ 1,698
Other Intergovernmental	423				423
Payroll				28	28
Due to Other Component Units	2,352				2,352
Deferred Revenues	6,122				6,122
Other Current Liabilities	528				528
Total Current Liabilities	11,113	2	0	36	11,151
Total Liabilities	11,113	2	0	36	11,151
Fund Balances:					
Reserved for:					
Encumbrances				14	14
Inventories	17				17
Undesignated	14,635	10,899	2	4	25,540
Total Fund Equity and Other Credits	14,652	10,899	2	18	25,571
Total Liabilities, Fund Equity and Other Credits	$ 25,765	$ 10,901	$ 2	$ 54	$ 36,722

Reconciliation of the Component Units' Governmental Funds Balance Sheet to the Statement of Net Assets

(Amounts in Thousands)

Total Fund Balance – Component Units' Governmental Funds		$ 25,571
Amounts reported for component unit governmental activities in the Statement of Net Assets are different because:		
Capital assets less accumulated depreciation are included in the Statement of Net Assets.		
Capital Assets – Non-Depreciable	$ 258	
Capital Assets – Depreciable	11,417	
Accumulated Depreciation	(8,692)	
		2,983
Long-term liabilities applicable to the component units' governmental activities that are not due and payable in the current period and accordingly are not reported in the funds. These liabilities are included in the Statement of Net Assets.		
Employees' Compensable Leave:		
Current Portion	(934)	
Non-Current Portion	(7)	
		(941)
Net Assets of Component Units' Governmental Activities		$ 27,613

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Discretely Presented Governmental Component Units
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	State Bar of Texas	Texas Agricultural Finance Authority	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Appraiser Licensing and Certification Board	Total
REVENUES					
Licenses, Fees & Permits	$ 26,494	$ 3	$	$	$ 26,497
Interest and Other Investment Income	918	322			1,240
Sales of Goods and Services	1,022	1		8	1,031
Other	3,408	1	94	461	3,964
Total Revenues	31,842	327	94	469	32,732
EXPENDITURES					
Current:					
General Government	31,310				31,310
Education			94		94
Natural Resources & Recreational Services		151			151
Regulatory Agencies				452	452
Capital Outlay	294				294
Total Expenditures	31,604	151	94	452	32,301
Excess of Revenues Over Expenditures	238	176	0	17	431
Fund Balances, September 1, 2001	14,243	10,723	2	1	24,969
Restatements	171				171
Fund Balances, September 1, 2001, as Restated	14,414	10,723	2	1	25,140
FUND BALANCES, AUGUST 31, 2002	$ 14,652	$ 10,899	$ 2	$ 18	$ 25,571

Reconciliation of the Component Units' Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
(Amounts in Thousands)

Net Change in Component Units' Fund Balance		$ 431
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceed capital outlay in the current period is:		
Capital Outlay	$ 294	
Depreciation Expense	(721)	
		(427)
In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.		(174)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Salaries expenses related to Compensable Leave		(122)
Change in Net Assets of Component Units' Governmental Activities		$ (292)

State of Texas
Combining Statement of Net Assets –
Discretely Presented Proprietary Component Units
August 31, 2002 (Amounts in Thousands)

	Texas Guaranteed Student Loan Corporation	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Workers' Compensation Insurance Fund*	Other Discretely Presented Component Units	Total
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$ 21,492	$	$ 2,062	$ 48,383	$	$ 32,947	$ 104,884
Short Term Investments		28,975	75,000			39,047	143,022
Restricted Cash and Cash Equivalents	23,642					93	23,735
Receivables:							
Taxes						21	21
Federal	14,258			19,674			33,932
Accounts	182			7,414		4,204	11,800
Interest and Dividends	1,280	1,300	162			46	2,788
Gifts						440	440
Other	1,859					9,974	11,833
Due From Other Component Units						2,352	2,352
Due From Primary Government						11	11
Inventories				295		308	603
Prepaid Items				548		300	848
Loans and Contracts		9,242				19,869	29,111
Other Current Assets	626					189	815
Total Current Assets	63,339	39,517	77,224	76,314	0	109,801	366,195
Non-Current Assets:							
Investments	236,881	30,401	22,534			261	290,077
Restricted:							
Cash and Cash Equivalents						169	169
Investments						25,780	25,780
Loans and Contracts		67,571				19,609	87,180
Depreciable Capital Assets:							
Facilities and Other Improvements	1,888			286		30	2,204
Furniture and Equipment	10,046			4,272		2,853	17,171
Vehicles, Boats and Aircraft	89			21,368			21,457
Other Fixed Assets	8,931					22,449	31,380
Accumulated Depreciation	(13,284)			(10,251)		(7,333)	(30,868)
Other Non-Current Assets	3,402			1,811		2,914	8,127
Total Non-Current Assets	247,953	97,972	22,534	17,486	0	66,732	452,677
Total Assets	311,292	137,489	99,758	93,800	0	176,533	818,872

Concluded on the following page

State of Texas
Combining Statement of Net Assets – Discretely Presented Proprietary Component Units (concluded)
August 31, 2002 (Amounts in Thousands)

	Texas Guaranteed Student Loan Corporation	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Workers' Compensation Insurance Fund*	Other Discretely Presented Component Units	Total
LIABILITIES							
Current Liabilities:							
Payables:							
Federal	$ 42,257	$	$	$	$	$	$ 42,257
Accounts	14,122		9	209		6,581	20,921
Payroll				3,627			3,627
Deferred Revenues	7,287			32		29,398	36,717
Notes and Loans Payable				21,399		35,546	56,945
Revenue Bonds Payable		12,670				10	12,680
Employees' Compensable Leave						160	160
Capital Lease Obligations						25	25
Other Current Liabilities		175	214	1,004		8,214	9,607
Total Current Liabilities	63,666	12,845	223	26,271	0	79,934	182,939
Non-Current Liabilities:							
Notes and Loans Payable				184,091		1,000	185,091
Revenue Bonds Payable		52,383	99,335			24,615	176,333
Employees' Compensable Leave	1,508					114	1,622
Capital Lease Obligations						2	2
Liabilities Payable from Restricted Assets	151,163						151,163
Other Non-Current Liabilities						31,035	31,035
Total Non-Current Liabilities	152,671	52,383	99,335	184,091	0	56,766	545,246
Total Liabilities	216,337	65,228	99,558	210,362	0	136,700	728,185
NET ASSETS							
Invested in Capital Assets, Net of Related Debt				505		16,549	17,054
Restricted for:							
Education	94,955						94,955
Capital Projects						508	508
Other						229	229
Unrestricted		72,261	200	(117,067)		22,547	(22,059)
Total Net Assets	$ 94,955	$ 72,261	$ 200	$(116,562)	$ 0	$ 39,833	$ 90,687

* This Fund has activity on the Combining Statement of Revenues, Expenses and Changes in Net Assets – Discretely Presented Proprietary Component Units.

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Discretely Presented Proprietary Component Units
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Guaranteed Student Loan Corporation	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Workers' Compensation Insurance Fund*	Other Discretely Presented Component Units	Total
OPERATING REVENUES							
Sales of Goods and Services	$ 899	$	$	$	$	$ 5,281	$ 6,180
Hospital Revenue						9,327	9,327
Professional Fee Revenue						927	927
Premium Revenue						63,013	63,013
Interest and Investment Income		1	54			5,385	5,440
Interest and Investment Income - Pledged		8,280	2,473				10,753
Federal Revenue	57,232			29,494			86,726
State Grant Revenue						28,174	28,174
Other Operating Grant Revenue	53,347					820	54,167
Other Operating Revenues				50,329		42,402	92,731
Total Operating Revenues	111,478	8,281	2,527	79,823	0	155,329	357,438
OPERATING EXPENSES							
Cost of Goods Sold						188	188
Salaries and Wages	27,894			21,220		7,575	56,689
Payroll Related Costs	7,336			4,532		1,416	13,284
Professional Fees and Services	34,673	1	11	497		28,530	63,712
Travel	2,144			337		227	2,708
Materials and Supplies	1,305			50,596		655	52,556
Communication and Utilities	1,442			860		274	2,576
Repairs and Maintenance	1,257			2,063		549	3,869
Rentals and Leases	6,093			4,281		782	11,156
Printing and Reproduction	526			69		42	637
Depreciation and Amortization	2,042			3,415		2,703	8,160
Bad Debt Expense				722		1,074	1,796
Interest Expense		6,594	2,102			450	9,146
Other Operating Expenses	1,853	624	448	25,550		106,432	134,907
Total Operating Expenses	86,565	7,219	2,561	114,142	0	150,897	361,384
Operating Income (Loss)	24,913	1,062	(34)	(34,319)	0	4,432	(3,946)
OTHER NONOPERATING REVENUES (EXPENSES)							
Gifts						921	921
Interest and Investment Income	6,250			1,495		4,926	12,671
Interest Expense				(10,290)		(286)	(10,576)
Gain on Sale of Capital Assets	8			814			822
Other Nonoperating Revenues				25,124		111	25,235
Other Nonoperating Expenses						(5,996)	(5,996)
Total Nonoperating Revenues (Expenses)	6,258	0	0	17,143	0	(324)	23,077
Income (Loss) Before Other Revenues, Expenses, Gains/Losses and Transfers	31,171	1,062	(34)	(17,176)	0	4,108	19,131
CAPITAL CONTRIBUTIONS							
Capital Contributions						2,500	2,500
Total Capital Contributions	0	0	0	0	0	2,500	2,500
Change in Net Assets	31,171	1,062	(34)	(17,176)	0	6,608	21,631
Total Net Assets, September 1, 2001	64,006	71,199	234	(98,486)	742,223	32,870	812,046
Restatements	(222)			(900)	(742,223)	355	(742,990)
Total Net Assets, September 1, 2001, as Restated	63,784	71,199	234	(99,386)	0	33,225	69,056
TOTAL NET ASSETS, AUGUST 31, 2002	$ 94,955	$ 72,261	$ 200	$(116,562)	$ 0	$ 39,833	$ 90,687

* Due to changes in the organizational structure, the fund is now reported as a related organization.

State of Texas
Combining Statement of Cash Flows – Discretely Presented Proprietary Component Units
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Guaranteed Student Loan Corporation	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Workers' Compensation Insurance Fund*	Other Discretely Presented Component Units	Total
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts from Customers	$ 876	$	$	$	$	$107,692	$108,568
Proceeds from Loan Programs	332,074		2,344			500	334,918
Proceeds from Other Revenues	123,366		54	81,372		31,157	235,949
Payments to Suppliers for Goods and Services	(49,941)	(4)	(11)			(127,511)	(177,467)
Payments to Employees	(27,740)			(19,855)		(8,340)	(55,935)
Payments for Loans Provided	(360,629)					(450)	(361,079)
Payments for Other Expenses		(621)	(439)	(91,698)		(6,240)	(98,998)
Net Cash Provided by Operating Activities	18,006	(625)	1,948	(30,181)	0	(3,192)	(14,044)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES							
Proceeds from Debt Issuance	235			69,650		30,574	100,459
Proceeds from Other Financing Activities				2		551	553
Proceeds from Contributed Capital						1,241	1,241
Payments of Principal on Debt Issuance	(235)	(14,588)		(21,161)		(640)	(36,624)
Payments of Interest		(6,419)	(1,887)	(10,290)		(671)	(19,267)
Payments of Other Costs of Debt Issuance						(5,197)	(5,197)
Net Cash Provided by Noncapital Financing Activities	0	(21,007)	(1,887)	38,201	0	25,858	41,165
CASH FLOWS FROM CAPITAL AND RELATED							
Proceeds from Sale of Fixed Assets	15			2,797		18	2,830
Proceeds from Capital Contributions						4,179	4,179
Payments for Additions to Fixed Assets	(3,390)			(12,626)		(2,325)	(18,341)
Payments of Principal Payments on Loans						(27)	(27)
Payments of Interest on Debt Issuance						(13)	(13)
Net Cash Provided by Capital and Related Financing Activities	(3,375)	0	0	(9,829)	0	1,832	(11,372)
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from Sale of Investments	69,553	8				200,540	270,101
Proceeds from Interest and Investment Income	16,023	3,077		1,495		4,896	25,491
Proceeds from Principal Payments on Loans		19,006	407			3,266	22,679
Payments to Acquire Investments	(74,956)	(459)				(222,660)	(298,075)
Net Cash Provided by Investing Activities	10,620	21,632	407	1,495	0	(13,958)	20,196
Net Increase (Decrease) in Cash and Cash Equivalents	25,251	0	468	(314)	0	10,540	35,945
Cash and Cash Equivalents, September 1, 2001	19,883	24,239	1,594	48,447	57,738	22,248	174,149
Restatements		(24,239)		250	(57,738)	421	(81,306)
Cash and Cash Equivalents, September 1, 2001, as Restated	19,883	0	1,594	48,697	0	22,669	92,843
Cash and Cash Equivalents, August 31, 2002	$ 45,134	$ 0	$ 2,062	$ 48,383	$ 0	$ 33,209	$128,788

* Due to changes in the organizational structure, the fund is now reported as a related organization.

State of Texas
Combining Statement of Cash Flows – Discretely Presented Proprietary Component Units
For the Fiscal Year Ended August 31, 2002 (Amounts in Thousands)

	Texas Guaranteed Student Loan Corporation	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Workers' Compensation Insurance Fund*	Other Discretely Presented Component Units	Total
RECONCILLIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES							
Operating Income (Loss)	$ 24,913	$ 1,062	$ (34)	$(34,319)	$ 0	$ 4,432	$ (3,946)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:							
Amortization and Depreciation	2,042			3,415		2,703	8,160
Discounts and Allowances				722		1,074	1,796
Operating Income and Cash Flow Categories Classification Differences	419	(624)	2,101	24,223		(4,037)	22,082
Changes in Assets and Liabilities:							
(Increase) Decrease in Receivables	(3,669)	125	(128)	(22,107)		(5,727)	(31,506)
(Increase) Decrease in Due from Other Funds	(1,859)						(1,859)
(Increase) Decrease in Inventories				(295)		(20)	(315)
(Increase) Decrease in Loans and Contracts	(33,216)	15,111				500	(17,605)
(Increase) Decrease in Other Assets	153	(1,674)		(2)		(59)	(1,582)
(Increase) Decrease in Prepaid Expenses				(462)		31	(431)
Increase (Decrease) in Payables	3,972	(36)	9	1,027		6,356	11,328
Increase (Decrease) in Deferred Revenue				(2,646)		(7,626)	(10,272)
Increase (Decrease) in Other Liabilities	25,251	(14,589)		263		(819)	10,106
Total Adjustments	(6,907)	(1,687)	1,982	4,138	0	(7,624)	(10,098)
Net Cash Provided by Operating Activities	$ 18,006	$ (625)	$ 1,948	$(30,181)	$ 0	$ (3,192)	$(14,044)
NON CASH TRANSACTIONS							
Net Change in Fair Value of Investments						$ 16	$ 16

* Due to changes in the organizational structure, the fund is now reported as a related organization.

Statistical Section

Dallas

Dallas
1912

State of Texas
Governmental Fund Revenues by Source and Expenditures by Function
Last Ten Years*
(Amounts in Millions)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
REVENUES BY SOURCE										
Tax Collections	$25,123	$27,045	$25,226	$23,499	$22,590	$21,071	$19,872	$18,781	$18,117	$17,152
Federal Funds	20,310	17,319	16,170	15,316	14,209	14,043	14,068	13,925	8,766	7,852
Licenses, Fees and Permits	2,815	2,960	2,915	2,826	2,741	2,491	2,575	2,315	2,422	1,662
Interest and Other Investment Income	1,233	1,705	1,578	1,328	1,250	1,417	1,072	1,179	1,090	1,063
Land Income	18	46	11	10	15	13	10	8	9	14
Sales of Goods & Services	962	689	578	664	610	636	517	547	503	570
Other Revenues	1,783	1,854	1,551	2,492	906	936	686	732	489	766
Total Revenues	$52,244	$51,618	$48,029	$46,135	$42,321	$40,607	$38,800	$37,487	$31,396	$29,079
EXPENDITURES BY FUNCTION										
General Government	$ 1,842	$ 1,902	$ 1,798	$ 1,673	$ 1,496	$ 1,342	$ 1,306	$ 1,590	$ 1,074	$ 1,217
Education	15,739	15,057	14,743	12,640	12,726	12,429	11,872	11,540	9,370	9,072
Employee Benefits	15	8	8	7	7	2	2	8	8	7
Health and Human Services	22,394	19,036	17,878	17,082	16,005	16,111	16,201	15,575	12,486	10,892
Public Safety and Corrections	4,037	3,812	3,554	3,332	3,136	2,914	2,688	2,570	2,460	2,028
Transportation	3,097	4,720	4,612	3,922	3,398	3,194	3,536	2,965	2,888	2,952
Natural Resources and Recreational Services	713	704	672	712	652	675	594	590	514	515
Regulatory Agencies	270	260	243	235	228	214	213	226	239	222
Debt Service	626	1,107	971	875	1,169	771	745	1,007	688	467
Capital Outlay	2,274	389	517	548	355	380	499	1,083	1,002	540
Total Expenditures	51,007	46,995	44,996	41,026	39,172	38,032	37,656	37,154	30,729	27,912
EXCESS REVENUES (EXPENDITURES)	$ 1,237	$ 4,623	$ 3,033	$ 5,109	$ 3,149	$ 2,575	$ 1,144	$ 333	$ 667	$ 1,167

* This table is comprised of the following funds: General, Special Revenue, Debt Service, and Capital Projects.

Source: State of Texas Financial Statements 1993-2002.

State Tax Collections Per Capita
Last Ten Years*

(Amounts in Millions, Except State Tax Collections Per Capita and Percentage Data)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Tax Collections	$25,123	$27,045	$25,226	$23,499	$22,590	$21,071	$19,872	$18,781	$18,117	$17,152
Percentage Tax Collection Change From Prior Year	(7.11)%	7.21%	7.35%	4.02%	7.21%	6.03%	5.81%	3.67%	5.63%	7.13%
Resident Population	21.71	21.33	20.95	20.56	20.16	19.74	19.34	18.96	18.56	18.16
Percentage Population Change From Prior Year	1.78%	1.81%	1.90%	1.98%	2.13%	2.07%	2.00%	2.16%	2.20%	0.67%
State Tax Collections Per Capita	$ 1,157	$ 1,268	$ 1,204	$ 1,143	$ 1,121	$ 1,067	$ 1,028	$ 991	$ 976	$ 944

* This table is comprised of the following funds: General, Special Revenue, Debt Service and Capital Projects.

Source: Tax collections figures taken from the 1993-2002 State of Texas Financial Statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas
General Bonded Debt Per Capita
Last Ten Years*

(Amounts in Millions, Except General Bonded Debt Per Capita and Percentage Data)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Bonded Debt (General Obligation Bonds Only)	$ 5,756	$ 5,271	$ 5,143	$ 4,920	$ 5,000	$ 4,931	$ 4,962	$ 4,570	$ 3,963	$ 3,424
Percentage Bonded Debt Change From Prior Year	9.20%	2.49%	4.53%	(1.60)%	1.40%	(0.62)%	8.58%	15.32%	15.74%	21.12%
Resident Population	21.71	21.33	20.95	20.56	20.16	19.74	19.34	18.96	18.56	18.16
Percentage Population Change From Prior Year	1.78%	1.81%	1.90%	1.98%	2.13%	2.07%	2.00%	2.16%	2.20%	0.67%
General Bonded Debt Per Capita	$ 265	$ 247	$ 245	$ 239	$ 248	$ 250	$ 257	$ 241	$ 214	$ 189

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators, and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Tax collections figures taken from the 1993-2002 State of Texas Financial Statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years.

State of Texas
Ratio of Annual Debt Service Requirements for General Bonded Debt to Total Governmental Fund Type Expenditures
Last Ten Years*

(Amounts in Thousands, Except Percentage Data)

Fiscal Year	Total Debt Service**	Total Expenditures	Ratio of Debt Service to Expenditures
2002	$590,500	$51,012,761	1.16%
2001	$537,040	$46,995,249	1.14%
2000	$514,929	$44,995,790	1.14%
1999	$538,212	$41,025,727	1.31%
1998	$508,415	$39,172,095	1.30%
1997	$495,515	$38,031,899	1.30%
1996	$446,456	$37,656,055	1.19%
1995	$428,446	$37,154,145	1.15%
1994	$382,263	$30,728,317	1.24%
1993	$353,467	$27,911,709	1.27%

* This table is comprised of the following funds: General, Special Revenue, Debt Service and Capital Projects.

** Debt Service requirements include scheduled principal and interest payments. Payments for refundings are excluded. The following bonds are included: Veterans Bonds; Water Bonds; Park Developments Bonds; College Student Loan Bonds; Higher Education Constitutional Bonds; National Research Laboratory Commission Bonds; and Public Finance Authority Bonds.

Source: 1993-2002 State of Texas Financial Statements.

State of Texas
Revenue Bond Coverage
Last Ten Years
(Amounts in Thousands)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Total Pledged Sources and Other Sources*	$7,356,581	$5,456,773	$5,017,262	$4,527,904	$4,063,737	$3,631,993	$3,902,440	$3,483,757	$3,171,459	$3,163,407
Operating and Capital Outlay Expenditures/ Expenses	210,734	97,341	89,534	75,865	101,765	106,857	126,377	128,275	130,544	156,954
Net Revenue Available for Debt Service	$7,145,847	$5,359,432	$4,927,728	$4,452,039	$3,961,972	$3,525,136	$3,776,063	$3,355,482	$3,040,915	$3,006,453
Scheduled Debt Service Payments:										
Principal	$ 325,404	$ 306,937	$ 287,799	$ 275,543	$ 251,852	$ 248,574	$ 216,887	$ 222,021	$ 237,881	$ 177,470
Interest	404,868	393,679	391,527	352,989	351,610	380,867	345,927	363,995	377,105	369,223
Total Debt Service	$ 730,272	$ 700,616	$ 679,326	$ 628,532	$ 603,462	$ 629,441	$ 562,814	$ 586,016	$ 614,986	$ 546,693
Coverage	9.79	7.65	7.25	7.08	6.57	5.60	6.71	5.73	4.94	5.50

* Includes operating revenues, interest earned on investments, other pledged revenues and other sources.

Source: 1993-2002 State of Texas Annual Financial Statements.

State of Texas
Texas Gross State Product, 1993-2002, By Industry
(Amounts in Millions)

Industry	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Agriculture	$ 7,836	$ 7,740	$ 7,374	$ 7,175	$ 8,331	$ 8,197	$ 9,309	$ 9,639	$ 10,152	$ 9,967
% Change	10.2	(1.2)	(4.7)	(2.7)	16.1	(1.6)	13.6	3.5	5.3	(1.8)
Mining	34,157	31,848	33,470	41,543	44,289	35,601	35,921	46,247	45,324	45,429
% Change	4.0	(6.8)	5.1	24.1	6.6	(19.6)	0.9	28.7	(2.0)	0.2
Construction	18,378	20,346	21,945	24,433	25,498	29,262	32,841	36,066	37,779	38,976
% Change	5.8	10.7	7.9	11.3	4.4	14.8	12.2	9.8	4.7	3.2
Manufacturing	63,736	73,435	78,902	81,215	90,363	94,198	96,049	101,105	101,545	96,497
% Change	7.6	15.2	7.4	2.9	11.3	4.2	2.0	5.3	0.4	(5.0)
Transportation and Utilities	50,452	53,815	56,945	61,452	65,662	70,595	75,984	82,927	87,504	89,222
% Change	8.9	6.7	5.8	7.9	6.9	7.5	7.6	9.1	5.5	2.0
Wholesale and Retail Trade	73,861	80,313	85,130	91,281	100,803	110,401	118,945	127,095	130,416	136,109
% Change	6.0	8.7	6.0	7.2	10.4	9.5	7.7	6.9	2.6	4.4
Finance, Insurance and Real Estate	65,229	68,013	72,892	77,744	89,235	95,857	103,475	109,676	120,075	127,036
% Change	6.0	4.3	7.2	6.7	14.8	7.4	7.9	6.0	9.5	5.8
Services	81,922	87,377	94,537	103,160	115,542	125,615	136,548	148,674	158,377	168,918
% Change	6.2	6.7	8.2	9.1	12.0	8.7	8.7	8.9	6.5	6.7
Local, State and Federal Government	57,079	59,819	62,687	65,178	68,898	71,679	75,864	80,845	84,899	95,250
% Change	6.6	4.8	4.8	4.0	5.7	4.0	5.8	6.6	5.0	12.2
TOTAL**	$452,650	$482,706	$513,882	$553,181	$608,621	$641,405	$684,936	$742,274	$776,071	$807,404
% Change	6.6	6.6	6.5	7.6	10.0	5.4	6.8	8.4	4.6	4.0
TOTAL (In 1996 $)	$482,498	$505,461	$528,264	$553,181	$598,103	$631,688	$665,047	$684,260	$703,391	$720,839
% Change	3.9	4.8	4.5	4.7	8.1	5.6	5.3	2.9	2.8	2.5

* 2002 numbers are estimated from incomplete data.

** Totals may not add due to rounding.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas
Texas Salary Earnings by Industry, 1993–2002
(Amounts in Millions)

Industry	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002*
Agriculture	$ 1,668	$ 1,714	$ 1,911	$ 1,973	$ 2,169	$ 2,303	$ 2,620	$ 2,714	$ 2,989	$ 2,836
% Change	8.5	2.8	11.5	3.2	9.9	6.2	13.8	3.6	10.1	(5.1)
Mining	8,193	8,300	8,357	8,859	10,078	10,780	10,201	11,495	12,495	12,757
% Change	0.9	1.3	0.7	6.0	13.8	7.0	(5.4)	12.7	8.7	2.1
Construction	9,589	10,644	11,863	13,280	14,532	16,529	18,286	20,386	21,291	21,486
% Change	3.7	11.0	11.5	11.9	9.4	13.7	10.6	11.5	4.4	0.9
Manufacturing	31,833	33,405	35,603	37,961	41,301	45,498	46,147	49,177	48,968	45,626
% Change	5.8	4.9	6.6	6.6	8.8	10.2	1.4	6.6	(0.4)	(6.8)
Transportation and Utilities	15,073	16,004	17,202	18,346	20,521	22,835	25,476	29,006	29,478	29,302
% Change	7.3	6.2	7.5	6.7	11.9	11.3	11.6	13.9	1.6	(0.6)
Wholesale and Retail Trade	35,103	37,345	40,151	42,861	47,057	52,322	56,999	61,565	62,574	63,534
% Change	5.1	6.4	7.5	6.7	9.8	11.2	8.9	8.0	1.6	1.5
Finance, Insurance and Real Estate	14,070	14,565	15,056	16,527	18,519	21,131	22,649	24,866	26,676	27,629
% Change	9.7	3.5	3.4	9.8	12.1	14.1	7.2	9.8	7.3	3.6
Services	47,216	49,864	54,912	60,270	68,034	75,595	81,845	90,267	95,674	99,518
% Change	9.4	5.6	10.1	9.8	12.9	11.1	8.3	10.3	6.0	4.0
Local, State and Federal Government	37,322	38,961	40,738	42,233	44,210	46,506	48,993	52,563	54,979	59,847
% Change	7.0	4.4	4.6	3.7	4.7	5.2	5.3	7.3	4.6	8.9
TOTAL**	$200,067	$210,802	$225,793	$242,310	$266,421	$293,499	$313,216	$342,039	$355,124	$362,535
% Change	6.8	5.4	7.1	7.3	10.0	10.2	6.7	9.2	3.8	2.1

* 2002 numbers are estimated from incomplete data.

** Totals may not add due to rounding.

Source: U. S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S.
Total Personal Income, Population and Per Capita Income, 1993-2002

Calend Year	Total Personal Income (Million $) Texas	Percent Change	U. S.	Percent Change	Population (Thousands) Texas	Percent Change	U. S.	Percent Change	Per Capita Income ($) Texas	Percent Change	U. S.	Percent Change
1993	356,785	6.8%	5,609,975	4.1%	18,162	0.7%	260,457	0.3%	19,645	6.0%	21,539	3.9%
1994	377,583	5.8%	5,888,050	5.0%	18,564	2.2%	263,565	1.2%	20,339	3.5%	22,340	3.7%
1995	402,096	6.5%	6,200,925	5.3%	18,959	2.1%	266,649	1.2%	21,209	4.3%	23,255	4.1%
1996	428,726	6.6%	6,547,375	5.6%	19,341	2.0%	269,772	1.2%	22,167	4.5%	24,270	4.4%
1997	468,950	9.4%	6,937,010	6.0%	19,740	2.1%	272,982	1.2%	23,756	7.2%	25,412	4.7%
1998	511,964	9.2%	7,426,033	7.0%	20,158	2.1%	276,133	1.2%	25,398	6.9%	26,893	5.8%
1999	539,390	5.4%	7,786,497	4.9%	20,558	2.0%	279,286	1.1%	26,237	3.3%	27,880	3.7%
2000	587,228	8.9%	8,406,562	8.0%	20,946	1.9%	282,384	1.1%	28,035	6.9%	29,770	6.8%
2001	609,489	3.8%	8,685,334	3.3%	21,325	1.8%	285,027	0.9%	28,581	1.9%	30,472	2.4%
2002*	629,443	3.3%	8,958,832	3.1%	21,705	1.8%	287,352	0.8%	29,000	1.5%	31,177	2.3%

* 2002 estimates based on data available to date.

Source: U.S. Bureau of Economic Analysis. Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U. S.
Employment and Unemployment Rates, 1993-2002
(Thousands of Jobs and Percent)

Calend Year	Nonfarm Employment Texas	Percent Change	U. S.	Percent Change	Unemployment Percentage Rate Texas	U.S.
1993	7,479	3%	110,692	2%	7.2	6.9
1994	7,750	4%	114,135	3%	6.4	6.1
1995	8,022	4%	117,188	3%	6.0	5.6
1996	8,257	3%	119,589	2%	5.6	5.4
1997	8,612	4%	122,676	3%	5.4	5.0
1998	8,942	4%	125,845	3%	4.8	4.5
1999	9,159	2%	128,901	2%	4.6	4.2
2000	9,432	3%	131,719	2%	4.2	4.0
2001*	9,514	1%	131,925	0%	4.9	4.8
2002*	9,457	(1)%	130,780	(1)%	6.0	5.8

* 2001 and 2002 numbers are subject to benchmark revisions.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts, U.S. Bureau of Labor Statistics.
Historical data has been revised.
The data in this table represents estimated annual averages of monthly data.

State of Texas
Residential and Nonresidential Construction, 1993-2002

Calendar Year	Single Family Housing Starts	Multiple Family Housing Starts	Total Residential Housing Starts	Nonresidential Construction (Thous. Sq. Ft)
1993	74,527	11,930	86,457	80,119
1994	79,188	31,210	110,398	89,922
1995	77,929	33,229	111,158	92,808
1996	90,308	31,211	121,519	100,514
1997	88,011	43,966	131,977	120,162
1998	107,112	52,586	159,698	161,646
1999	106,164	40,614	146,778	158,660
2000	111,309	32,338	143,647	162,335
2001	118,016	29,196	147,212	160,908
2002*	124,822	32,924	157,746	134,788

* 2002 housing start numbers are estimated from the state's econometric forecasting model and available data on housing permits.

Source: U. S. Bureau of the Census, Wharton Econometrics Forecasting Associates (WEFA), Texas A&M Real Estate Center, and Texas Comptroller of Public Accounts. The Bureau and WEFA Group revised historical data in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas
Value of Taxable Property, 1992-2001
(Billions of Dollars)

Year	Value	% Change
1992	$ 621.1	(1.0)%
1993	$ 627.7	1.1%
1994	$ 636.7	1.4%
1995	$ 660.5	3.7%
1996	$ 661.2	0.1%
1997	$ 708.9	7.2%
1998	$ 747.4	5.4%
1999	$ 793.0	6.1%
2000*	$ 863.1	8.8%
2001	$ 943.3	9.3%

* 2000 numbers have been revised.

Source: Property Tax Division, Texas Comptroller of Public Accounts. Numbers reflect taxable value of real and personal property.

State of Texas
Texas Banking Activity, 1993-2002*
All Commercial Banks
(Millions of Dollars)

Calendar Year	Total Assets	Percent Change in Assets	Total Deposits	Total Equity Capital	Total Loans	Number of Reporting Institutions
1993	$183,953	7.3%	$151,184	$14,551	$ 88,621	1,011
1994	$188,088	2.2%	$153,405	$14,780	$ 98,336	980
1995	$202,718	7.8%	$155,286	$16,373	$112,394	935
1996	$205,184	1.2%	$168,218	$17,259	$104,950	877
1997	$235,098	14.6%	$191,791	$19,416	$119,668	838
1998**	$179,694	(23.6)%	$149,093	$15,257	$ 94,152	798
1999	$181,144	0.8%	$143,242	$14,742	$ 99,584	753
2000	$166,352	(8.2)%	$133,164	$14,297	$ 96,236	709
2001***	$144,674	(13.0)%	$120,867	$13,678	$ 78,284	686
2002****	$151,229	4.5%	$124,873	$15,269	$ 82,008	672

* Given the changes in the banking data available online, the table has been significantly revised from prior years.

** 1998 numbers reflect losses due to a merger, which converted a large Texas bank to out-of-state status.

*** 2001 numbers reflect a $50 billion loss in assets due to mergers/acquisitions, which converted two Texas banks to out-of-state status.

**** 2002 data are for the first three quarters of the calendar year, with growth rates from the first three quarters of 2001.

Source: Federal Deposit Insurance Corporation (FDIC).

State of Texas
Total Retail Sales, 1993-2002

Year	Million $	% Change
1993	$169,004	8.9%
1994	$185,450	9.7%
1995	$198,825	7.2%
1996	$216,302	8.8%
1997	$232,711	7.6%
1998	$244,911	5.2%
1999	$265,073	8.2%
2000**	$298,614	12.7%
2001**	$304,459	2.0%
2002*	$138,362	(3.3)%

* First half of 2002 and the percentage change over the first half of 2001.

** 2000 and 2001 numbers have been revised.

Source: Texas Comptroller of Public Accounts.

State of Texas
Texas Public School Enrollment
By Grade and Ethnic Grouping
1991-1992 Through 2001-2002

Academic Year	Grade				All Grades	Percent Increase
	K-3	4-6	7-9	10-12		
1991-92	1,123,812	830,989	802,874	604,325	3,362,000	2.2%
1992-93	1,134,383	845,771	835,142	613,276	3,428,572	2.0%
1993-94	1,145,701	854,150	869,217	618,748	3,487,816	1.7%
1994-95	1,153,255	866,810	894,984	633,386	3,548,435	1.7%
1995-96	1,171,927	874,527	912,884	655,075	3,614,413	1.9%
1996-97	1,192,932	887,512	931,356	685,413	3,697,213	2.3%
1997-98	1,210,804	891,245	944,175	712,047	3,758,271	1.7%
1998-99	1,227,343	901,404	954,700	726,895	3,810,342	1.4%
1999-00	1,236,618	915,189	966,797	737,088	3,855,692	1.2%
2000-01	1,249,519	934,197	976,226	756,488	3,916,430	1.6%
2001-02	1,265,391	953,774	993,954	780,343	3,993,462	2.0%
Change since 91-92	141,579	122,785	191,080	176,018	631,462	18.8%
Percent of all grades	22%	20%	30%	28%	100%	

Academic Year	American Indian	Asian	Black	Hispanic	Caucasian	Total*
1991-92	6,856	71,925	495,658	1,192,063	1,697,869	3,464,371
1992-93	8,349	76,821	506,331	1,237,485	1,712,783	3,541,769
1993-94	8,150	80,511	515,475	1,282,849	1,721,277	3,608,262
1994-95	8,803	83,416	526,757	1,325,768	1,732,427	3,677,171
1995-96	9,566	86,706	536,386	1,375,896	1,739,613	3,748,167
1996-97	9,927	91,051	549,667	1,435,521	1,750,930	3,837,096
1997-98	10,578	95,136	560,405	1,478,984	1,755,385	3,900,488
1998-99	11,925	100,143	568,757	1,526,713	1,746,896	3,954,434
1999-00	11,293	103,686	576,977	1,582,538	1,727,733	4,002,227
2000-01	12,120	108,605	586,712	1,650,560	1,713,436	4,071,433
2001-02	12,777	116,243	598,359	1,735,916	1,701,806	4,165,101
Change since 91-92	5,921	44,318	102,701	543,853	3,937	700,730
Percent of Total Increase	1%	6%	15%	78%	0%	100%

* Ethnic counts include children in Early Education and Pre-Kindergarten programs not shown.

Source: Texas Education Agency.

State of Texas
Higher Education Enrollment, Last Ten Years

Institutions	Fall 1993	Fall 1994	Fall 1995	Fall 1996	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Fall 2001	Fall 2002*	Percentage Change 1993 to 2002
Public Universities	407,314	406,466	400,633	397,293	396,265	398,258	407,074	414,626	430,770	456,209	12%
Independent Senior Colleges and Universities	90,570	92,029	95,276	96,685	98,873 **	102,489	104,179	107,681 **	111,259	113,722	26%
Public Community Colleges	400,148	400,323	401,049	407,556	413,631	412,684	426,519	438,730 **	468,201	509,201	27%
Public Technical Institutes	7,234	7,732	7,557	8,008	8,468	8,724	8,804	9,268 **	10,112	10,721	48%
Independent Junior Colleges	678	619	668	751	767 **	673	609	634	670	680	0%
Public Medical, Dental and Health-Related Units	13,969	14,421	14,629	15,378	15,333	15,374	12,410	12,607 **	13,100	13,804	(1)%
Independent Medical, Dental and Health-Related Units	1,590	1,607	1,615	1,156	1,174	1,162	1,186	1,199 **	1,206	1,263	(21)%
Total Per Year	921,503	923,197	921,427	926,827	934,511	939,364	960,781	984,745	1,035,318	1,105,600	20%

* 2002 numbers based on preliminary data.
In Fall 1999, 2,442 veterinary medicine students were reported under Public Universities.

** 1997 and 2000 numbers have been revised.

Source: Texas Higher Education Coordinating Board. Prior year numbers have been revised.

Number of Higher Education Institutions – 2002

Public Universities	35
Independent Senior Colleges & Universities	38
Public Community Colleges	53
Public Technical Institutes	4
Independent Junior Colleges	2
Public Medical Schools & Health Science Centers	8
Independent Medical & Dental Schools	1
Total Institutions for 2002	141

Source: Texas Higher Education Coordinating Board.

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